INTERFOR

Annual Statutory Information

for 2003

Includes:

- Message To Shareholders
- Management Discussion And Analysis Dated March 7, 2004
- Consolidated Financial Statements
- Annual Information Form Dated March 7, 2004
- Environment & Safety Report

International Forest Products Limited

CERTIFIED SUSTAINABLE®

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INTERFOR

International Forest Products Limited

HIGHLIGHTS

	2003	2002	2001
		(in millions of dollars, except share and per share amounts)	
Financial Summary			
Sales	603.7	784.1	704.1
EBITDA (note)	4.4	121.1	45.4
Net earnings (loss) - before restructuring	(21.0)	41.6	(6.7)
- after restructuring	(23.0)	40.0	(25.9)
Per Share Data			
Net earnings (loss) per common share - basic			
- before restructuring	(0.53)	1.16	(0.19)
- after restructuring	(0.58)	1.12	(0.75)
Price range per share			
$ High	7.90	5.85	5.75
$ Low	4.31	3.66	3.01
Book value per share	7.10	8.27	7.13
Cash Flow per share before working Capital Change	(0.12)	3.01	0.72
Weighted average shares outstanding (millions)	39.5	35.9	34.6
Financial Position			
Total assets	466.8	537.3	526.1
Total debt	13.0	50.0	101.6
Total shareholders' equity	343.7	293.9	255.8
Invested capital	356.7	343.9	357.4
Financial Ratios (%)			
Return on average shareholders' equity	(7.2) %	14.5 %	(9.9) %
Return on average invested capital	(5.9) %	12.1 %	(7.1) %
Total debt as a % of invested capital	3.6 %	14.5 %	28.4 %

Note: See the definition of EBITDA under the heading Review of Operating results on page 11.

"In spite of the challenges ahead of us, we remain absolutely committed to our vision of building a world-class company and delivering strong returns to our shareholders."

Message to Shareholders – March 2004

For further highlights, please See Message to Shareholders on the next page.

INTERFOR

International Forest Products Limited

MESSAGE TO SHAREHOLDERS

OVERVIEW

The progress made by Interfor in recent years was severely tested in 2003. Business conditions declined rapidly soon after the year began and remained challenging throughout the year. In the end, in spite of our best efforts, Interfor experienced its worst year from a financial standpoint since 1998.

That said, we can report that progress was made in 2003 in a number of areas that we believe will significantly enhance our prospects in the years ahead. Highlights during the year included:

Strategic & Financial

- Established new reman facility in Sumas, Wash.
- Invested $16.6 million in high-return projects
- Raised $72.2 million in new equity
- Launched marketing initiatives in China and Europe

Environmental

- Achieved re-certification to ISO 14001 for Interior woodlands
- Began re-certification of Coastal woodlands to SFI standard
- Increased the use of variable retention harvesting methods
- Developed endangered species guidebook for the Coastal region

Safety

- Implemented *Managing for Outstanding Safety* initiative
- Reduced Medical Incident Rate (MIR) by 10%
- Ranked among top safety performers in coastal woodlands and manufacturing

Community and First Nations Activities

- Held Annual General Meeting at Adams Lake
- Participated in Central Coast Land Use discussions
- Helped develop strategic vision for coastal revitalization
- Signed community timber sale agreement with District of Ucluelet
- Began joint road-building project with Hesquiaht First Nation

While we are beginning to see a number of encouraging signs that should lead to better results in 2004, it is important to keep in mind that a number of significant challenges remain.

You can be assured that we will continue to do everything we can to address these challenges and to position Interfor for long-term success.

FINANCIAL RESULTS HURT BY A COMBINATION OF FACTORS

Interfor's financial results were hurt by a combination of factors in 2003.

The dramatic increase in the value of the Canadian dollar (which rose from US$0.63 at the end of 2002 to US$0.77 at year-end), a full year of duties on shipments to the U.S., major downturns in two of Interfor's most important markets (the Japanese traditional products market and the U.S. cedar market), and rising

stumpage rates came together to form the most challenging set of circumstances faced by coastal producers in recent years.
In response, Interfor aggressively curtailed operations and reduced spending in order to conserve cash.

The situation was further compounded by a 4-week strike by unionized workers on the Coast beginning in mid-November.

For the year, lumber production was 637 million board feet compared to 772 million board feet in 2002, and sales revenue declined to $603.7 million from $784.1 million last year.

In the end, Interfor recorded a net loss of $23.0 million or $0.58 per share in 2003 compared to net earnings of $40.0 million or $1.12 per share in 2002.

EBITDA in 2003 was $4.4 million compared to $121.1 million in 2002.

For additional information on the Company's financial performance we encourage you to review the HIGHLIGHTS section on page 3 and to read the MANAGEMENT DISCUSSION AND ANALYSIS section beginning on page 11.

RELOCATION OF VALUE ADDED PLANT EXCEEDS EXPECTATIONS

In the 1st Quarter of 2003, Interfor completed the relocation of its McDonald value-added plant to Sumas, Washington.

The decision to relocate the McDonald plant was made in the 4th Quarter of 2002 with the intention of reducing the impact of U.S. duties on the Company's cedar business and to access other cost savings available at the new location.

By year-end, the new plant was operating above pro forma levels and had generated financial benefits in excess of 50% of the capital cost of the new plant.

The relocation has also made way for the redevelopment and sale of the McDonald site which should be completed in 2004.

STRATEGIC POSITION STRENGTHENED BY HIGH-RETURN PROJECTS

During 2003, Interfor directed capital to a number of high-return projects including $6.5-million to Adams Lake for the construction of a new planer/sorter complex. An additional kiln was added at Adams Lake in December at a cost of $1.0 million. By all accounts the Adams Lake project has been an outstanding success with conversion costs down by more than 10% and lumber production up by more than 20%.

Including the Adams Lake project, Interfor spent a total of $16.6 million on high-return projects in 2003.

Pursuing projects with fast paybacks – i.e. 2 years or less – has been a central theme of our business strategy since 2000. We currently have a number of projects in the planning stage that meet this criteria and we intend to move forward with them in 2004.

In total, capital spending during 2003 was $39.9 million compared to $41.1 million in 2002.

MARKETING INITIATIVES LAUNCHED IN CHINA AND EUROPE

In 2003, Interfor began pursuing opportunities to develop emerging markets in China. During the year, sales to China exceeded 70 million board feet. We are also testing the viability of remanufacturing products in China for marketing through our Tokyo office, and we are encouraged by the initial results of these tests.

Interfor also re-entered the Belgium Douglas-fir and French Hemlock markets in 2003 after several years' absence. In addition, the Company helped establish an international cedar marketing program in Europe and led a $4 million industry/government cedar promotion in the U.S.

We believe repositioning coastal products in the marketplace is a key element of industry's revitalization. As such, we will continue to pursue new marketing initiatives in 2004.

BALANCE SHEET IS STRONG; EQUITY ISSUE RAISES $72.2 MILLION

Despite the difficult year, Interfor continued to focus on the strength of its balance sheet during 2003.

In September, we took advantage of an opportunity presented by a syndicate of Canadian underwriters to issue 12.9 million shares at a price of $5.85 per share. This equity issue raised $72.2 million after expenses which was used to repay debt.

In total, the Company repaid $37 million in debt during 2003. At year-end, net debt was $13 million or less than 4% of invested capital.

Our strong balance sheet provides protection against uncertainty and an excellent foundation to pursue strategic opportunities.

We will take steps to ensure our balance sheet remains strong in 2004.

COASTAL AND INTERIOR WOODLANDS RE-CERTIFIED TO KEY ENVIRONMENTAL STANDARDS

In 2003, Interfor's Interior woodlands operations were successfully re-certified to the ISO 14001 environmental standard. The re-certification of our Coastal woodlands operations to the Sustainable Forestry Initiative (SFI) standard began in 2003 and was successfully completed in January 2004.

In addition, we are pleased to report that our chain-of-custody processes at all of our manufacturing facilities were independently certified to meet both the Forest Stewardship Council (FSC) and generic system standards.

During the year, Interfor continued to be engaged in a variety of environmental initiatives related to its forest practices and we achieved our target of applying variable retention logging methods to 50% of our harvesting area.

The Company also led a number of environmental projects involving wildlife studies, ecosystem research, and the development of an endangered species guidebook in partnership with the provincial Ministry of Water, Land and Air Protection. *A Field Guide to Species at Risk in the Coast Forest Region of British Columbia* is being used by foresters and biologists working on the B.C. Coast and is available to the public through B.C. Government Publications Service (www.publications.gov.bc.ca)

Going forward, we will continue to take a leadership role in the area of environmental certification and will maintain our high level of environmental performance.

FATALITIES OVERSHADOW IMPROVED SAFETY PERFORMANCE

For the fifth consecutive year, Interfor's overall safety performance has improved.

In 2003, statistics indicate the Company's Medical Incident Rate (MIR) dropped by a further 10%, bringing the improvement to 88% in the last five years. Our woodlands and manufacturing divisions were ranked among the top safety performers in the B.C. industry during the year.

Regrettably, two of our colleagues lost their lives in work-related incidents in 2003. In June, Ryan Hudson was killed in a rock truck crash while working for one of our road-building contractors at Bute Inlet. In October, Jack Riley, an employee of a contract trucking company, was killed during the loading of his truck at our Field Sawmill in Courtenay.

Words can't describe the anguish felt by the families and friends of these men or the sense of frustration among their colleagues that incidents like these occur.

Interfor has made a strong commitment to improve attitudes toward safety among our employees and contractors. The belief that injuries – and even fatalities – are inevitable due to the inherent danger of the business is not acceptable.

In 2003, the Company implemented a program called *Managing for Outstanding Safety* and established Safety Task Groups in our manufacturing and coastal woodlands operations. All of our woodlands employees and contractors received training under the program before returning for the 2003 logging season. In manufacturing, new safety standards are being developed along with more effective risk assessment tools.

The woodlands initiative has already resulted in a new set of safety values for our operations. They are:

- Safety has overriding priority
- All injuries are preventable
- We identify, assess and control risk
- Each of us is accountable for the prevention in injuries in our sphere of influence
- Safety excellence generates business success
- Participation develops ownership in safety
- We take pride in working safely

The work of Interfor's safety task groups was highlighted early this year at a meeting of Federal, Provincial and Territorial Labour Ministers in Banff, Alberta. Keith Rush, General Manager of Interfor's South Coast Operations and Chairman of the Woodlands Safety Task Group, was a featured speaker at the meeting. Keith is also an advisor to B.C. Labour Minister Graham Bruce's Forest Safety Task Force which issued a report and action plan in early 2004 designed to address safety performance in the industry.

We will continue to focus on safety improvement in 2004 with the ultimate goal of eliminating serious injuries and fatalities. Our specific target for the year is an MIR of less than 3.0.

COMMUNITY CONNECTIONS STRENGTHENED; ENHANCED RELATIONSHIPS WITH FIRST NATIONS PURSUED

Interfor continued to make progress in developing and enhancing its relationships in operating communities and with First Nations in 2003.

For the fourth consecutive year, the Company held its Annual General Meeting in an operating community. Adams Lake, the home of our Interior woodlands and manufacturing operations, hosted the AGM in April. The meeting was held at the mill site and was attended by community leaders, First Nations leaders, elected officials and many of our employees.

In 2003, we continued to develop an important Community Involvement Pilot Project with the Ucluelet Economic Development Corporation (UEDC) on the Westcoast of Vancouver Island. Interfor has now signed an agreement with the UEDC to manage the community's 75,000 cubic metre timber sale program.

During the year, Interfor also made considerable progress in enhancing our relationships with First Nations groups who live in areas where we operate. In October, through an agreement with the Hesquiaht First Nation, we began construction of a road linking the Hesquiaht communities of Hot Springs Cove and Hesquiaht Harbour. Currently, Hot Springs Cove is only accessible by boat or floatplane. The new road

will provide a safer, more accessible way for Hesquiaht children to be transported to school and it will give the Hesquiaht greater access to the resources in their traditional territory. Interfor has also signed an agreement with the Hesquiaht to manage their timber sale program.

In 2004, we will continue to work with communities and First Nations to promote more local involvement in the management and use of local resources.

INTERFOR PLAYS ROLE IN CENTRAL COAST LAND USE AGREEMENT

During the year, Interfor participated in various land use discussions on the B.C. Coast. One of the more significant sets of discussions led to a consensus agreement for the Central Coast Land and Resource Management Plan (CCLRMP).

This is a milestone achievement by key stakeholders from communities, the forestry sector, environmental groups, small business and tourism that determined areas for conservation and resource use. The CCLRMP recommendations will now be forwarded to the B.C. Government for consultation with First Nations.

In 2004, Interfor will continue to work collaboratively with major environmental groups and other forest companies on the Joint Solutions Project (JSP) concerning coastal forests. The Company's involvement in this initiative is helping to bring forward new approaches for conservation and forest management that are environmentally appropriate, socially acceptable and economically viable.

NEW VISION UNVEILED FOR REBUILDING THE COASTAL SECTOR

Early in 2003, Interfor joined with two other companies -- Weyerhaeuser and TimberWest -- to develop a vision paper on the future of the Coastal forest industry.

Launched in September, *Embracing a New Vision: Rebuilding BC's Coastal Forest Industry* calls on all industry stakeholders to work together to address the problems that have negatively impacted one of the province's prime economic generators. The report is available on our website www.interfor.com

Since its release, Interfor has participated in presenting the vision paper to community, business and government leaders throughout the coastal region. The report has generated considerable interest and, we believe, has helped to spark progress in a number of areas.

We will continue to work with other industry players in 2004 to further advance the revitalization of the coastal industry.

SHORT-TERM PROSPECTS IMPROVING; HOWEVER, CHALLENGES REMAIN

As we move into 2004, a number of encouraging signs are beginning to emerge.

Price levels in the U.S. structural products market have improved dramatically – which benefits our Adams Lake mill – and prospects for cedar are better than they were at this time last year.

Prices in the Japanese traditional products market have also improved and the shift in the C$/Euro cross provides the best opportunity we have seen in recent years for B.C. producers to regain market share in Japan.

In January 2004, the B.C. Government announced that it intended to move to a new market-based stumpage system for the coastal region, effective March 1st. This change has been long awaited. The old system was badly out-of-tune with market realities and acted as a significant constraint on harvesting activity and financial performance. The new system will tie stumpage rates directly to the prices bid in the province's timber sales program and, by all accounts, should result in a reduction in stumpage rates in the short term.

Over time, the new stumpage system (along with other changes in forest policy introduced in 2003, but coming into effect over the next two to three years) will create a more dynamic market environment on the Coast. We have long been in favour of these policy reforms and believe Interfor is well positioned to prosper in a more deregulated environment.

That said, we need to maintain perspective. A number of significant challenges remain which, unless addressed or offset in some manner, will continue to negatively impact our financial performance.

The Canadian dollar is at a level we have not seen since 1997 and the softwood dispute remains unresolved. The shift to kiln dried and engineered products – which have eroded the market share of traditional B.C. products in Japan – will likely continue, and operating costs in the coastal region are higher than in other jurisdictions.

The on-going softwood dispute remains particularly problematic. Because of our high product values, Interfor and other coastal producers are paying duties 3 to 4 times higher than those paid by producers in other regions of the country.

Attempts to craft a negotiated solution to the dispute or to create an exemption for high-valued appearance products have proven unsuccessful to date. That said, we continue to believe that a durable solution will only be achieved through negotiation and we are hopeful that this matter will be resolved successfully in 2004.

Trade issues aside, we also have assets that are not performing at a standard that is competitive on a global scale. For example, our Squamish sawmill has been curtailed since last April and we have not, as yet, been able to put together a business plan that would encourage restarting the facility.

In 2004, we intend to resolve the status of those operations not capable of contributing to the Company's long-term success.

LABOUR UPDATE

The labour agreement between coastal forest companies and the IWA expired on June 15, 2003. Following failed contract talks and a 4-week strike, the B.C. Government legislated an end to the dispute and put in place a binding mediation/arbitration process with a deadline of May 31, 2004.

Respected mediator Don Munroe, QC, was appointed to oversee the process. His mandate includes a requirement to put in place terms and conditions of employment consistent with the economic viability of the industry in both the short and long term, good labour/management relations, and the interests of employees and the union.

We believe that the coastal labour agreement needs to be modernized if the industry is going to be competitive on a global scale. We are hopeful this process will help to address some of the major challenges that industry and labour failed to resolve during 18 months of coastal restructuring talks, which began in November 2001.

LOOKING AHEAD

In spite of the challenges ahead of us, we remain absolutely committed to our vision of building a world-class company and delivering strong returns to our shareholders.

With that in mind, Interfor has made a proposal to acquire certain assets from Doman Industries Ltd. as part of Doman's financial restructuring. If successful, this proposal would represent a $310 million investment in the coastal industry and would see our company grow to twice its current size.

Interfor's proposal is one of two being considered by Doman and its creditors. A final restructuring plan is expected by early spring.

We are also looking at other opportunities in Canada and elsewhere that are consistent with our goal of achieving sustainable, long-term profitability.

During 2004, we will continue to focus on market development and product and marketing strategies that maximize the value from our timber supply.

We will continue to work with the Provincial Government, labour, our employees and contractors to bring about the changes necessary to revitalize our industry.

We remain committed to progressive forest management, as well as ecologically and scientifically sound forest practices, and to the pursuit of greater community and First Nations involvement in the industry.

In conclusion, we are looking forward to a future that sees Interfor as a driving force behind a viable and consistently profitable industry, and to delivering value to our shareholders.

We thank you for your continued support.

William L. Sauder
Chairman

Duncan K. Davies
President & C.E.O.

INTERFOR

International Forest Products Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Dated as of March 7, 2004

REVIEW OF OPERATING RESULTS

The financial statements were prepared in accordance with Canadian generally accepted accounting principles.

Selected Annual Financial Information	2003	2002	2001	2000	1999
	(millions of dollars except per share amounts)				
Sales	603.7	784.1	704.1	745.6	661.1
Operating earnings (loss)	(45.7)	59.5	(37.4)	53.1	(45.5)
EBITDA[2]	4.4	121.1	45.4	107.7	100.2
Net earnings (loss) after tax, before restructuring costs and property, plant & equipment write-downs	(21.0)	41.6	(6.7)	28.4	17.4
Net earnings (loss)	(23.0)	40.0	(25.9)	30.7	(30.8)
Net earnings (loss) per share - basic	(0.58)	1.12	(0.75)	0.90	(0.87)
Net earnings (loss) per share - diluted	(0.58)	1.11	(0.75)	0.90	(0.87)
Cash flow from operations[1] per share	(0.12)	3.01	0.72	3.13	2.09

1 See Glossary for definition

2 EBITDA represents earnings before interest, taxes, depletion, amortization and restructuring costs. The Company disclosed EBITDA as it is a measure used by analysts to evaluate the Company's performance. As EBITDA is a non-GAAP measure, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance. EBITDA can be calculated from the statement of operations as follows:

	2003	2002	2001	2000	1999
Net earnings (loss)	(23.0)	40.0	(25.9)	30.7	(30.8)
Add: Income taxes (recovery)	(15.6)	21.3	(14.9)	22.7	(19.4)
Interest expense	3.7	3.6	5.5	3.0	8.2
Depletion and amortization	36.1	53.7	48.9	54.9	62.7
Restructuring costs, asset write-downs and other	3.2	2.5	31.8	(3.6)	79.5
EBITDA	4.4	121.1	45.4	107.7	100.2

Volume and Price Statistics

	2003	2002	2001	2000	1999
Lumber sales (MMfbm)	632	760	674	621	551
Lumber production (MMfbm)[1]	644	783	666	632	565
Log sales (thousand cubic metres)	1,125	1,375	1,581	1,803	1,992
Log production (thousand cubic metres)	1,965	2,911	2,760	3,407	3,449
Log consumption (thousand cubic metres)	2,824	3,400	2,919	2,729	2,469
Average lumber selling price ($/Mfbm)[2]	$662	$733	$732	$795	$776

1 Includes lumber produced on a custom cutting basis for customers who have previously purchased the logs, in most cases from Interfor.
2 $ Canadian, FOB Vancouver, net of countervailing duty and antidumping duty.

Quarterly Earnings Summary	2003				2002[2]			
	Quarters				Quarters			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
	(millions of dollars except per share amounts)							
Sales	176.3	157.6	141.4	128.4	177.4	194.3	196.7	215.7
Operating earnings (loss)	(9.7)	(20.9)	(3.3)	(11.9)	5.0	26.1	11.5	16.9
EBITDA[3]	4.4	(8.2)	7.0	1.2	13.6	40.9	31.2	35.4
Net earnings (loss) after tax, before restructuring costs and property, plant & equipment write-downs	(2.8)	(11.0)	(1.4)	(5.8)	3.1	16.2	9.5	12.7
Net earnings (loss)	(2.8)	(12.1)	(1.4)	(6.7)	3.1	16.2	8.0	12.7
Net earnings (loss) per share - basic and diluted	(0.08)	(0.34)	(0.04)	(0.14)	0.09	0.45	0.22	0.35
Cash flow from operations[1] per share	0.03	(0.34)	0.10	0.05	0.33	1.03	0.66	0.98

1 See Glossary for definition

2 In the first quarter of 2003, the Company changed its accounting policy for expensing fixed woodlands production costs in its interim quarterly financial statements from a units of production basis to an incurred cost basis. This change does not impact the Company's annual consolidated financial statements. Prior period quarterly results have been restated to reflect the new accounting policy.

3 EBITDA (see description above under Selected Annual Financial Information). EBITDA can be calculated from the statement of operations as follows:

	1st 2003	2nd 2003	3rd 2003	4th 2003	1st 2002	2nd 2002	3rd 2002	4th 2002
Net earnings (loss)	(2.8)	(12.1)	(1.4)	(6.7)	3.1	16.2	8.0	12.7
Add: Income taxes (recovery)	(3.3)	(7.4)	(1.2)	(3.7)	1.7	9.8	4.7	5.1
Interest expense	1.0	1.3	1.0	0.4	1.1	0.7	0.9	0.9
Depletion and amortization	9.5	8.3	8.6	9.7	7.7	14.2	15.1	16.7
Restructuring costs, asset write-downs and other	-	1.7	-	1.5	-	-	2.5	-
EBITDA	4.4	(8.2)	7.0	1.2	13.6	40.9	31.2	35.4

General Overview

The combination of U.S. duties, a strengthening Canadian dollar, difficult conditions in Japan and a one month strike by the IWA late in the year had a material negative impact on sales activity and revenue in 2003. In response to the rapidly deteriorating economic conditions, the Company reduced operating rates in its coastal woodlands and coastal manufacturing facilities during the 1st quarter of 2003 to bring production into line with market demand and to minimize losses, conserve cash and maintain a strong balance sheet.

Interfor recorded a net loss of $23.0 million ($0.58 per share) in 2003 compared to net earnings of $40.0 million ($1.12 per share) in 2002. EBITDA was $4.4 million (2002 - $121.1 million). Before restructuring costs and property, plant and equipment write-downs, the net loss for 2003 was $21.0 million ($0.53 per share) compared to net earnings of $41.6 million ($1.16 per share) in 2002. The 2003 results are net of $31.0 million pre-tax (2002 - $24.5 million) or $0.50 per share after tax (2002 - $0.43 per share) in countervailing (18.79%) and antidumping (8.43%) duties imposed by the U.S. Department of Commerce ("USDOC") on the value of shipments of softwood lumber to the U.S. The 2002 results include a reversal of duties accrued in 2001 in the amount of $10.3 million pre-tax or $0.18 per share after tax (see "U.S. Softwood Lumber Duty Action" below).

Interfor generated modest positive net cash flow from operations (after changes in working capital) of $1.1 million in 2003 (2002 - $87.8 million), and spent $39.9 million on capital projects (2002 - $41.1 million). Spending on roads was lower in 2003 due to the reduced operating rates dictated by the poor economic environment. As in 2002, spending on roads and property, plant and equipment was also constrained pending greater clarity on trade and forest policy issues.

In early September Interfor completed the issuance of 12,900,000 shares at a price of $5.85 per share by way of a "bought deal" with a syndicate of Canadian underwriters. Net proceeds from the offering of $72.2 million were used to pay down existing bank indebtedness.

Interfor repaid a total of $37.0 million in debt in 2003 and finished the year with net debt at less than 4% of invested capital. At the end of 2003, total debt was $13.0 million compared to $50.0 million at December 31, 2002. The Company's strong balance sheet provides Interfor with significant protection against uncertainty, and with an excellent foundation to pursue strategic opportunities. At December 31, 2003 Interfor had unused available lines of credit of more than $117 million.

U.S. Softwood Lumber Duty Action

On March 21, 2002 and further adjusted on April 25, 2002, USDOC issued its final determination in the countervailing and antidumping investigations. The USDOC's final determination in the countervailing investigation resulted in a duty rate of 18.79% to be posted by cash deposits from the effective date of the Final Order (May 22, 2002 as discussed below). The USDOC's final determination in the antidumping investigation resulted in company specific duty rates ranging from 2.18% to 12.44% on the six companies investigated and an "all other rate" of 8.43% for all other companies including Interfor. On May 16, 2002, the U.S. International Trade Commission ("USITC") published its final written determination on injury and stated that Canadian softwood lumber threatens material injury to the U.S. industry. As a result, effective from the Final Order date of May 22, 2002, cash deposits are required for shipments at the rates determined by the USDOC. The final amount of countervailing and antidumping duties that may be assessed on Canadian softwood lumber exports to the U.S. cannot be determined at this time and will depend on appeals of the final determinations to any reviewing courts, the North American Free Trade Agreement ("NAFTA") or the World Trade Organization ("WTO") panels.

The Company has recorded $31.0 million in 2003 as a reduction of sales revenue in respect of the countervailing and antidumping duties assessed on Canadian softwood lumber exports to the United States. Cumulative duties expensed for the period from May 22, 2002 to December 31, 2003 total $55.5 million (US$37.8 million). Translated at the year end exchange rate, these US$ would result in a CDN$ equivalent of $49.0 million.

B.C. Forest Revitalization Plan

In March 2003, the Government of B.C ("Crown") introduced the Forestry Revitalization Plan (the "Plan") that provides for significant changes to Crown forest policy and to the existing allocation of Crown timber tenures to licensees. The changes prescribed in the Plan include: the elimination of minimum cut control regulations, the elimination of existing timber processing regulations, and the elimination of restrictions limiting the transfer and subdivision of existing licences. As well, through legislation, licensees, including the Company, will be required to return 20% of their replaceable tenure to the Crown. The Plan states that approximately half of this volume will be redistributed to open up opportunities for woodlots, community forests and First Nations and the other half will be available for public auction. The Crown has acknowledged that licensees will be fairly compensated for the return of tenure and related costs such as roads and bridges.

The effect of the timber take-back will result in a reduction of approximately 579,000 m3 of the Company's existing allowable annual cut (AAC) on their replaceable tenures, and is expected to occur during 2005 and 2006. The effect of the Plan on the Company's financial position and results of operations cannot be determined at this time. The Company will record the effects of the Plan at the time the amounts to be recorded can be estimated.

IWA Strike

The contract between Coastal employers, represented by Forest Industrial Relations (FIR) and the Industrial, Wood and Allied Workers (IWA) expired in mid-June 2003. The IWA proposed a multi-year agreement involving increases in wages and benefits and other improvements. An August 2003 report prepared for FIR by the professional services firm of PricewaterhouseCoopers LLP has indicated that labour costs in the coastal industry are significantly higher than in other jurisdictions. This discrepancy versus U.S. producers has widened during the course of 2003 as the Canadian dollar has appreciated against the U.S. dollar. On November 7, 2003, 98.7% of FIR members voted to reject the IWA proposal. FIR has proposed a three year agreement which would include measures to facilitate improvements in productivity and to reduce the industry's overall cost structure. On November 17, 2003, following actions taken by the IWA which brought the collective agreement to an end, FIR imposed new terms and conditions of employment to address the lack of progress in bargaining and the cost disadvantage faced by the coastal industry. On November 21, 2003 the IWA commenced a strike involving approximately 10,000 IWA members.

On December 16, 2003 the Crown passed legislation that ended the coastal forest strike. The legislation required an immediate return to work under the terms of the collective agreement that expired in June. The terms of a new contract will be reached through a mediation-arbitration process to be completed by May 31, 2004. The Mediator's terms of reference require that he take into account the economic viability and competitiveness of the coastal forest industry as well as labour relations stability and interests of unions and employees.

Comparison With 2002

Interfor's sales revenues decreased by $180.5 million, a drop of 23% from 2002 levels. The decrease was primarily due to a 17% decrease in lumber sales volumes combined with a 10% decrease in lumber unit selling prices (net of duties). U.S. countervailing and antidumping duties increased by $6.5 million compared to 2002 despite the drop in lumber volumes, reflecting a full year of duties in 2003. Unit log sales prices decreased by 20% and log sales volumes dropped by 18%. Pulp chip revenues fell by 10% compared to 2002, reflecting a 23% drop in volumes offset somewhat by an increase in unit selling prices of 17%.

Production costs decreased primarily as a result of the lower volumes of log and lumber production and sales. Unit cash manufacturing costs in the Company's sawmills increased by 10% as fixed costs were allocated over lower production volumes. Unit cash logging costs increased by 8%, also primarily due to allocating fixed costs over lower volumes harvested.

Depletion and amortization costs in total decreased by $17.6 million compared to 2002. Amortization of logging roads was lower by $15.3 million, of which $10.6 million reflected lower conventional logging production and $4.7 million reflected lower costs. Amortization of plant and equipment in the Company's manufacturing plants was $2.1 million below 2002, reflecting lower operating levels in the Company's sawmills.

Interest costs and average debt levels were similar to 2002 levels. In addition, the Company's average direct borrowing rates experienced in 2003 were approximately equal to 2002.

The Company's results in 2002 included the recovery of U.S. countervailing and antidumping duties of $10.3 million as a result of the USITC final written determination on injury referred to above ("U.S. Softwood Lumber Duty Action"). The duties had been expensed and accrued between August 17, 2001 and December 31, 2001. There was no recovery or reversal of duties in 2003.

In 2003, in light of poor lumber markets, the 20% reduction of the Company's timber tenures discussed above ("B.C. Forest Revitalization Plan"), the rapid strengthening of the Canadian dollar against the U.S. dollar and the continuing U.S. softwood lumber dispute, Interfor reduced staff levels and made the decision to permanently close its Specialty Products Division. The Company recorded $3.2 million in write-downs of property, plant and equipment and $3.0 million in severance and other related restructuring costs. These amounts were partially offset by a reversal of previously accrued restructuring costs of $2.9 million. Restructuring costs in 2002 of $2.5 million were incurred related to the permanent closure of the McDonald Cedar value-added plant which was relocated to Sumas, Washington in order to reduce the effects of duties on the Company's shipments to the U.S.

During 2003, the CDN$ appreciated significantly against the US$. The CDN$ ranged from a high of $1.57 to a low of $1.29 (2002 - $1.61 to $1.51), with an average exchange rate for 2003 of $1.40 (2002 - $1.57). Assuming constant pricing, the negative impact of the stronger dollar on net earnings after tax, and before the positive impact of currency hedging, was $16.8 million (2002 - $4.0 million). Hedging programs offset the reduction in net earnings by $6.7 million (2002 - $1.3 million) resulting in a net impact on earnings of $10.1 million (2002 - $2.7 million).

CASH FLOWS

Cash used in operations, before working capital changes, was $4.9 million for the year. Decreased investment in working capital of $6.0 million resulted in a net cash generation from operations of $1.1 million for the year.

On November 15, 2002, the Company commenced a normal course issuer bid to acquire up to 2,979,000 Class A shares (representing approximately 8.54% of the outstanding Class A shares) through the facilities of the Toronto Stock Exchange. During 2003 the Company acquired 132,500 Class A shares at a total cost of $0.9 million. The normal course issuer bid terminated on November 14, 2003.

During the year Interfor repaid $50.0 million of the term line of credit established in 2001 to facilitate the Primex acquisition. The term line has been fully repaid and the credit facility has been cancelled. The Company used its revolving term line of credit to fund the repayment.

On September 11, 2003 the Company issued 12,900,000 Class A subordinate voting shares without par value at a price of $5.85 per share for gross proceeds of $75.5 million. The net proceeds of $72.2 million after share issue costs were used to pay down existing bank indebtedness. A small number of shares were issued to satisfy share options exercised.

Net cash applied to property, plant and equipment, timber and logging roads and investments totaled $35.9 million. The Company expended $16.6 million to construct roads and $23.3 million to improve plant and equipment. Approximately 60% of the expenditures on plant and equipment were attributed to projects which are expected to have paybacks of less than two years and the balance was used to maintain the efficiency of the Company's operations. Cash proceeds from the sale of surplus assets totaled $3.5 million in 2003.

Liquidity

The Company expects to fund its ongoing operations and normalized future capital expenditures for maintenance of equipment and road development through the cash generated from operations and through utilization of its existing bank facilities. This is based on maintenance of the Company's current operating capacity, and would exclude any additional requirements resulting from any major acquisitions which could occur in the future. (Refer also to comments under "General Overview" above and "Current Liabilities", "Long-Term Liabilities", and "Summary of Contractual Obligations" below.)

Summary of Issuance of Shares

The following table summarizes the major issuances of shares over a five year period, and excludes the issuance of shares on exercised employee options:

	2003	2002	2001	2000	1999
			(millions of dollars)		
Net proceeds from issuance of shares	72.2	0.0	15.8	0.0	0.0
Planned utilization of proceeds					
Acquisition of Primex Forest Products Ltd.	0.0	0.0	15.8	0.0	0.0
Repayment of bank indebtedness	72.2	0.0	0.0	0.0	0.0
	72.2	0.0	15.8	0.0	0.0
Actual utilization of proceeds					
Acquisition of Primex Forest Products Ltd.	0.0	0.0	15.8	0.0	0.0
Repayment of bank indebtedness	72.2	0.0	0.0	0.0	0.0
	72.2	0.0	15.8	0.0	0.0
Variance	0.0	0.0	0.0	0.0	0.0

FINANCIAL POSITION

Summary of Financial Position	2003	2002	2001	2000	1999
			(millions of dollars)		
Current assets	130.5	201.2	175.0	148.2	164.6
Current liabilities	82.6	126.4	115.3	103.6	96.3
Working capital	47.9	74.8	59.7	44.6	68.3
Total assets	466.8	537.3	526.1	413.4	458.3
Total long-term liabilities	40.5	116.9	154.9	44.0	114.5
Operating debt	13.0	0.0	1.6	3.9	0.0
Long-term debt	0.0	50.0	100.0	0.0	87.1
Total debt	13.0	50.0	101.6	3.9	87.1
Shareholders' equity	343.7	293.9	255.8	265.8	247.5
Invested capital	356.7	343.9	357.4	269.7	334.6
Ratio and Investment Information					
Current ratio	1.6	1.6	1.5	1.4	1.7
Total debt as a percentage of invested capital	3.6%	14.5%	28.4%	1.4%	26.0%
Return on average shareholders' equity[1]	(7.2)%	14.5%	(9.9)%	12.0%	(11.7)%
Return on average invested capital[1]	(5.9)%	12.1%	(7.1)%	10.7%	(6.7)%
Pre-tax return on total assets[1]	(8.3)%	11.4%	(7.8)%	12.9%	(10.9)%
Cash flow from operations[1] as a percentage of total debt	(38.0)%	216.6%	24.6%	2,728.9%	84.3%
Equity per share	$7.10	$8.27	$7.13	$8.29	$7.03
			(millions)		
Weighted average shares outstanding for the year	39.5	35.9	34.6	34.0	35.2
Number of shares outstanding at year end:					
Class A subordinate voting[2]	47.4	34.5	34.9	31.1	34.2
Class B common[2]	1.0	1.0	1.0	1.0	1.0
	48.4	35.5	35.9	32.1	35.2
Re-investment					
			(millions of dollars)		
Cash flow from operations[1]	(4.9)	107.8	25.0	106.5	73.4
Cash generated from (used in) operating working capital	6.0	(20.0)	36.1	19.1	27.4
Capital expenditures and acquisitions	(39.9)	(41.1)	(139.7)	(52.6)	(31.4)

1 See Glossary for definition
2 As March 25, 2004 there were 47.4 million Class A and 1.0 million Class B shares outstanding

Current Assets

Accounts receivable levels at December 31, 2003 are significantly lower than 2002. This reflects the IWA strike of November/December 2003 which lowered volumes of lumber, log and chip shipments. In addition to the reduced volumes, unit selling prices of lumber and logs at the end of 2003 were lower than 2002. As a result of the low level of accounts receivable at year end the Company's securitization program was reduced from $20.0 million to $10.0 million. Interfor expects to increase the securitization program when accounts receivable return to normal levels. The maximum amount available under the accounts receivable securitization program is $30 million.

Interfor's inventory levels are significantly lower than 2002, reflecting the decreased level of both log and lumber production in 2003, reduced volumes of logs available for purchase and the IWA strike. Lumber volumes in inventory decreased by 7%, while log inventory volumes were down by 37% compared to December 31, 2002.

Current Liabilities

The Company has operating lines of credit of $75.0 million. Drawings under these lines are subject to a borrowing base calculation dependent upon accounts receivable, inventories and certain accounts payable. At December 31, 2003, due to reduced levels of accounts receivable and inventory, the borrowing base available under the operating lines was $60.6 million. The Company had utilized $18.4 million including outstanding letters of credit at the end of 2003. The Company's working capital ratio was 1.6 to 1, unchanged from December 31, 2002.

Accounts payable were reduced primarily due to decreased operating levels in December 2003 in both the Company's manufacturing plants and in woodlands operations. The IWA strike combined with poor lumber and log markets contributed to the decreased operating levels. Interfor also reduced its log purchases in the fourth quarter of 2003 compared to 2002. In addition, during 2003, the Company settled various forestry and other liabilities which were outstanding at the end of 2002.

Investments and Other Assets

The Company's investment in Seaboard Shipping Company Limited ("Seaboard") totaled $31.5 million at December 31, 2003 (2002 - $24.8 million) as calculated under the equity method of accounting as described in note 4(a) to the consolidated financial statements. The increase in the investment is due to equity income earned during year of $6.7 million (2002 - $4.0 million). No cash distributions were received from Seaboard during 2003 (2002 - $3.7 million).

The Company's investment in Seaboard is subject to the risks and uncertainties affecting an international shipping company and include open market charter rates, foreign exchange rates, costs of fuel oil and interest rates.

Property, Plant and Equipment, Timber and Logging Roads

The net book value of the Company's property, plant and equipment, timber and logging roads decreased by $1.3 million in 2003. Investments in property, plant and equipment, timber and logging roads, net of disposals during the year were approximately equal to charges for amortization and depletion. Spending on both roads and property, plant and equipment was constrained pending greater clarity on trade and policy issues (see "U.S. Softwood Lumber Action" and "Forest Policy Changes in British Columbia", below under "Risks and Uncertainties"). Investments in property, plant and equipment included $3.5 million on maintenance of business projects, $13.9 million on high-return discretionary projects and $5.9 million on development costs related to surplus land.

Goodwill

During 2003, the Company reorganized its corporate structure which concluded in the wind-up of Primex Forest Products Ltd. and the Field Sawmills Limited Partnership. The reorganizations resulted in a reduction of goodwill of $5.7 million and corresponding decrease to the long-term future income tax liability.

Long-Term Liabilities

The Company's total long-term bank debt was repaid in 2003, down from $50.0 million in 2002. The Company had an unutilized term bank facility of $75.0 million at year end. Total debt as a percentage of invested capital decreased to 3.6% from 14.5% in 2002.

Other long-term liabilities increased due to higher forestry related liabilities, pension liabilities and accruals under long-term incentive compensation plans.

Summary of Contractual Obligations

The summary of payments due in respect of contractual and legal obligations are as follows:

	Payments due by period				
	Total	Up to 1 year	2 - 3 years	4 - 5 years	After 5 years
	(millions of dollars)				
Reforestation liability	28.5	7.5	10.0	7.4	3.6
Long-term debt	-	-	-	-	-
Other long-term liabilities	18.8	4.4	9.9	1.6	2.9
Operating leases	24.4	8.3	4.8	4.2	7.1
Total contractual obligations	71.7	20.2	24.7	13.2	13.6

Related Party Transactions

Lumber sales to an affiliate of Mountclair Investment Corporation, which owns 99.6% of the issued Class B Common shares and 3.25% of the issued Class A Subordinate Voting shares, totaled $5.3 million in 2003 (2002 - $5.4 million). Lumber sales to an investee company, Mapri Developments Ltd., totaled $2.4 million (2002 - $3.8 million). Lumber shipping services provided by an investee company, Seaboard Shipping Company Limited, totaled $19.3 million (2002 - $20.2 million). These transactions were conducted on a normal commercial basis, including terms and prices and did not result in any ongoing contractual or other commitments.

Critical Accounting Estimates

Valuation of Accounts Receivable. Interfor regularly reviews the collectibility of its accounts receivable and records an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. Consideration is given to current economic conditions and specific customer circumstances to determine the amount of any bad debt expenses to be recorded. Although Interfor has not experienced any significant bad debts expenses in prior periods, declines in the economy could result in collectibility concerns. Accounts receivable balances for individual customers could potentially be material at any given time.

Valuation of Inventories. Interfor values its lumber inventories at the lower of cost and net realizable value on a specific product basis. Log inventories are valued at the lower of cost and net realizable value on a specific boom basis. Other inventories consist primarily of supplies and are recorded at cost. Per unit net realizable value is determined by a reference to the average net sales by specific product in the periods immediately prior to the reporting date. Per unit cost for lumber is based on a three month moving average actual cost, lagged by one month, and for logs is based on a twelve month moving average actual cost, lagged by one month. Instances where net realizable value is lower than cost result in a charge to operating earnings in the period. Downward movements in commodity prices could result in a material write-down of inventory at any given time.

Recoverability of Property, Plant and Equipment, Timber and Logging Roads. Interfor's assessment of recoverability of property, plant and equipment, timber and logging roads is made with reference to projections of future cash flows to be generated by its operations. These projections necessitate the estimation of sales and production volumes, future commodity pricing, operating costs, foreign currency exchange rates, duties and other factors. There is a high degree of uncertainty in such estimations, and, as such, any significant change in assumptions could result in a conclusion that the carrying value of these assets could not be recovered, which could necessitate a material charge against operating earnings.

Reforestation and Other Forestry-related Liabilities. Crown legislation requires the Company to complete reforestation activities on its forest and timber tenures. Accordingly, Interfor records the estimated cost of reforestation as the timber is cut, and includes these expenses in the cost of current production. The estimate of future reforestation costs is based on detailed prescriptions of reforestation as prepared by Registered Professional Foresters employed by the Company. Considerations include the specifics of the areas logged and the treatments prescribed for those areas, as well as the timing and success rates of the planned activities. Estimates of reforestation liability could be materially impacted by forest fires, wildlife grazing, unfavourable weather conditions, changing legislative requirements and standards, or inaccurate projections, which could result in a charge against operating earnings.

The Company also has a legal obligation to deactivate any roads constructed and used to access timber once that access is no longer required. Accordingly, Interfor also accrues the cost of road deactivation as the related timber is cut, including those expenses in the cost of current production. The estimate of future road deactivation cost is based on comprehensive plans prepared by Professional Engineers employed by Interfor and includes such considerations as road structure and terrain. Estimates of road deactivation liability could be materially impacted by unfavourable terrain, changing legislative requirements and standards, or inaccurate projections, which could result in a charge against operating earnings.

Environmental Obligations. Environmental expenditures that relate to an existing condition caused by past operations are charged as current production costs once existence of a liability and costs of rehabilitation efforts can be reasonably determined. Interfor engages independent third party experts to assist in determining the existence of environmental liabilities, appropriate prescriptions for treatment and related costs. Estimates of environmental obligations could be materially impacted by a number of factors including incorrect or incomplete problem definition and identification of treatments, or inaccurate cost projections. Incorrect estimates could result in a material charge against operating earnings.

Pension Benefits. Interfor maintains a defined contribution plan available to all salaried employees and a defined benefit plan available to non-unionized hourly employees. The Company retains independent actuarial consultants to value its defined pension benefit obligations and plan asset values. Actuarial assumptions used in the valuation of obligations and values include assumptions of the discount rate used in calculations of net present value of obligations, expected rates of return on plan assets to be used to fund obligations, and anticipated increases in compensation amounts used to estimate obligations. Actual experience can very materially from estimates and could result in a material charge against operating earnings as well as necessitate a current cash funding requirement.

Softwood Lumber Duties. Softwood lumber duties represent contingent liabilities requiring payment of cash deposits to U.S. Customs authorities in order to allow the Company to ship softwood lumber products into the U.S. Interfor has recorded the cash payments related to these lumber shipments as a reduction of sales revenue. Interfor and other Canadian forest product companies, the Federal Government and Canadian provincial governments categorically deny U.S. allegations which result in the imposition of these countervailing and anti-dumping duties. Canadian interests continue to pursue appeals of the final countervailing and anti-dumping determinations with the appropriate courts, NAFTA panels and the WTO. As such, the actual amount of duties for softwood lumber products shipped will depend upon the outcome of these various appeals or upon a negotiated settlement. In addition, the U.S. undertakes annual administrative reviews which could result in revisions to either duty rate. Any differences between the revised duty rates and the rates at which deposits were paid can result in a refund or charge to Interfor, plus interest. Actual duty amounts paid in the future relating to current lumber shipments could be materially different from the amounts paid and expensed, and could result in a charge against operating earnings as a reduction of sales revenues.

RISKS AND UNCERTAINTIES

Pricing

Interfor's operating results are affected by fluctuations in the selling prices for lumber, logs and wood chips. Product selling prices are, in turn, affected by such factors as the general level of economic activity in the markets in which Interfor sells its products, interest rates, construction activity (in particular, housing starts in the United States and Japan), and log and chip supply/demand relationships. Interfor's financial results may be significantly affected by changes in the selling prices of its products.

Based on 2003 levels of operations, a $10 change in the Company's average selling price of its products would impact net earnings as follows:

Lumber	$10 increase per mfbm	$4.0 million increase in net income
Chips	$10 increase per volumetric unit	$2.8 million increase in net income

Competition

The markets for Interfor's products are highly competitive on a global basis and producers compete primarily on the basis of price. In addition, a majority of Interfor's production is directed to export markets, where Interfor competes on a worldwide basis against many producers of approximately the same or larger capacity. Some of Interfor's competitors have greater financial resources than Interfor and some of its competitors are, in some product lines, lower cost producers than Interfor.

Factors which affect Interfor's competitive position include:

- the cost of labour;
- the quality of its products and customer service; and
- its ability to maintain high operating rates and thus lower manufacturing costs.

If Interfor is unable to successfully compete on a global basis, its financial condition could suffer.

Availability of Log Supply

The log requirements of Interfor's mills are met using logs harvested from its timber tenures, by long-term trade and purchase agreements and by purchases on the open market. Logs produced but unsuitable for use in Interfor's mills are either traded for suitable logs or sold on the open market. Operating at normal capacity, the Company purchases in excess of 50% of its log requirements either through long-term trade and purchase agreements or on the open market. As a result, fluctuations in the price, quality or availability of log supply can have a material effect on Interfor's business, financial position, results of operations and cash flow.

Additionally, in order to ensure uninterrupted access to logs to be harvested from its timber tenures, Interfor must also focus on the continuous development of road networks. This encompasses an integrated plan by foresters, engineers and logging operations personnel to identify future logging areas and develop the engineering for roads. Interfor expects to fund its ongoing road development through the cash generated from operations and through utilization of its existing bank facilities.

Use of Financial and Other Instruments

The Company employs financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign exchange rates. The Company's policy is not to use derivatives for trading or speculative purposes. The risk management strategies and relationships are formally documented and assessed on a regular, ongoing basis to ensure derivatives are effective in offsetting changes in fair values or cash flows of hedged items.

The counter-parties for all derivative contracts are the Company's bankers and, hence, the risk of credit loss on the instruments is mitigated.

Currency Exchange Sensitivity

Interfor ordinarily sells approximately three-quarters of its lumber into export markets, with the majority of these sales denominated in foreign currency, predominantly US$ and a small amount of Japanese Yen. While the Company also incurs some US$ denominated expenses, primarily for countervailing and anti-dumping duties, ocean freight, and other transportation and equipment operating leases, the majority of its expenses are incurred in CDN$.

An increase in the value of the CDN$ relative to the US$ would reduce the amount of revenue in CDN$ realized by the Company from lumber sales made in US$. This would reduce the Company's operating margin and the cash flow available to fund operations. As a result, any such increase in the value of the CDN$ relative to the US$ could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

The Company actively manages its currency exchange risk in fluctuations in US$ and Japanese Yen by identifying opportunities from time to time to enter into foreign exchange contracts to effectively hedge its net exposure. At December 31, 2003 the Company had outstanding obligations to sell a maximum of US$10 million at an average rate of CDN$1.324 per US$1.00 and ¥330 million at an average rate of ¥81.85 per CDN$1.00, using a combination of forward and option contracts during 2004. Based on exchange rates at December 31, 2003, the Company had unrealized foreign exchange gains of $0.2 million with respect to these hedging arrangements.

Based on the Company's net exposure to foreign currencies in 2003, the sensitivity of Interfor's net earnings is as follows:

U.S. Dollar	1% increase vs. CDN$	$1.4 million increase in net income
Japanese Yen	1% increase vs. CDN$	$0.1 million increase in net income

Cost of Debt Financing and Sensitivity

As at December 31, 2003 Interfor had drawn a total of $13.0 million of floating rate debt under its term and operating credit facilities.

The Company's operating and term debt facilities bear interest at bank prime plus a premium depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances. The lines of credit are secured and are subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization.

The Company had no interest rate swaps outstanding at December 31, 2003.

Based on the Company's average debt level during 2003, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of $0.5 million to net earnings.

Sale of Receivables

During 2000, the Company entered into an agreement to sell designated trade receivables, with limited recourse, to a Trust. As these trade receivables are collected, they are replaced by new receivables to maintain the aggregate outstanding balance. At December 31, 2003, the Company had received cash proceeds of $10 million. The Company had reduced the sold amount at year end due to the IWA strike. Subsequent to year end, the Company returned to a normalized level of $20 million. If this agreement were to terminate, the Company has sufficient capacity in its operating lines to finance these receivables.

U.S. Softwood Lumber Action

In April 2002, the USDOC and the USITC (together with the USDOC, "U.S. Trade Authorities") issued their final determinations in the countervailing and anti-dumping investigations in respect of the sale of softwood lumber into the United States by Canadian producers. As a result, cash deposits are required to be made by Canadian producers for lumber shipments to the United States from May 22, 2002 at the rates determined by the USDOC. The USDOC's final determinations (the "Determinations") on its countervailing and anti-dumping investigations resulted in duty deposit rates on the Company's products sold into the United States of 18.79% and 8.43%, respectively.

Canadian forest products companies, including Interfor, and the Canadian federal and various provincial governments (the "Canadian Interests") have strongly disagreed with the Determinations. The Canadian Interests have sought to appeal and/or obtain relief in respect of such Determinations, the imposition of duties and the current requirement for cash deposits through applications under the NAFTA and to the WTO. Such appeals have resulted in various findings. Recent decisions of WTO and NAFTA panels have concluded, among other things, that provincial stumpage constitutes a financial contribution for countervailing duty purposes but that the USDOC's calculations of countervailing duties were unsupported by substantial evidence and were contrary to U.S. law.

As a result of the complexity of the softwood lumber trade dispute, various legal and other appeals and challenges being pursued by the Canadian Interests and a coalition of U.S. lumber producers and calculations and determinations to be made by U.S. Trade Authorities, and in the absence of a negotiated settlement satisfactory to all stakeholders, neither the final liability of the Company for the assessment of countervailing and anti-dumping duties nor the date of such determination can be predicted at this time. In the interim, U.S. Trade Authorities are expected to continue to impose countervailing and anti-dumping duties on imports of Canadian softwood lumber.

The Company cannot predict the final outcome of the WTO and NAFTA panel processes or the final amount of the liability, if any, imposed on the Company. In addition, the Company cannot predict whether the Canadian and United States federal governments will ultimately come to a negotiated settlement of these issues in a timely manner, or at all. Until these disputes are settled, the Company continues to be subject to the duties imposed by the U.S. Trade Authorities (see "U.S. Softwood Lumber Duty Action" under "Review of Operating Results"). Until the final outcome of the WTO and NAFTA panel processes is known, or until a negotiated settlement is reached, actual duty amounts paid in the future relating to current lumber shipments could be materially different from the amounts paid and expensed. As Interfor records duty payments as a reduction of sales revenue, any increase in duty rates would result in a reduction of net sales and a charge against operating earnings.

Forest Policy Changes in British Columbia

The Crown has initiated a number of new changes to forest policy that will help make a more viable and competitive forest industry in B.C. Policy changes in progress include a results based Forest Practices Code; First Nation tenure opportunities and revenue sharing; market based timber pricing; changes to mandatory requirements in areas such as licence transfers, cut control, and appurtenancy; and changes to tenure arrangements which include reductions in allowable annual cut. The Crown has stated that fair compensation that recognizes both the benefits and costs of reform will be assured for existing tenure holders. The changes are also expected to be part of an overall settlement that may bring about a resolution to the Canada – U.S. softwood lumber trade dispute and help address outstanding First Nation issues. The Crown believes that the proposed changes would lead to market driven decisions pertaining to what, how and when to harvest; where to process timber; and what products to produce. The Crown also believes that the measures substantively address the U.S. lumber industry's concerns and will result in a more competitive B.C. industry.

Some of these changes have already been implemented while others remain to be implemented. Until the details of all such changes are announced, the full impact of these changes on the Company's production, costs, financial position and results of operations cannot be determined.

The softwood lumber trade discussions between the Government of Canada, the provincial governments and the U.S. Government are continuing. Although the Crown has indicated the specific proposals tabled as part of these discussions are conditional on achieving final agreement on the framework of a settlement, the Company believes that regardless of the outcome of the softwood lumber trade dispute certain changes will be made in the areas referred to above.

Allowable Annual Cut

Approximately 95% of all timber lands in British Columbia is owned by the province of British Columbia and administered by the Ministry of Forests. *The Forest Act* (British Columbia) empowers the Ministry of Forests to grant timber tenures, including tree farm licences, forest licences and timber licences. Under the terms of such licences, the amount of commercial forest land available to the forest industry in British Columbia is periodically assessed by the Ministry of Forests through its Timber Supply Review Process (TSR).

The TSR assesses information pertaining to each timber supply unit every five years to re-determine its AAC. In 2003 Interfor's AAC was temporarily increased by 14,870 cubic metres per year (less than 1%). The increase applies to Interfor's Adams Lake forest licence and is valid for a 5 year period. In addition, the Company's AAC may be temporarily reduced in areas where logging has been suspended under Part 13 of the Forest Act (Designated Areas). Interfor's AAC was temporarily reduced by 3.9% (131,279 cubic metres per year) from Part 13 determinations made on the central coast in 2002. These temporary reductions remain in effect.

Many factors affect the AAC such as timber inventory, the amount of operable forest land, growth estimates of young forests, regulation changes, and environmental and social considerations. The AAC can be affected by factors that can exert both positive and a negative impact on timber supply. In addition to the 20% takeback referred to above ("B.C. Forest Revitalization Plan") volumes, some overall reductions to Interfor's AAC are expected in subsequent years as a result of new park additions on the North Coast and any new harvesting regulations that further constrain access to timber. There can be no assurance that the amounts of such future reductions, if any, will not be material or the amounts of compensation, if any, for such reductions will be fair and adequate.

Land Use Decisions and Aboriginal Issues

In 1997, the Supreme Court of Canada, in the Delgamuukw decision, confirmed the continued existence of Aboriginal title and rights in areas of British Columbia, which are not covered by treaties. Accordingly, Aboriginal groups have claimed Aboriginal title and rights over substantial portions of British Columbia, including areas where Interfor's forest tenures are situated, creating uncertainty as to the status of competing property rights. The Federal and Provincial governments have been seeking to negotiate settlements with Aboriginal groups throughout British Columbia in order to resolve these land claims. Any settlements that may result from the treaty process may involve a combination of cash, resources, grants of conditional rights to gather food on public lands and some rights of self government. The effect on Interfor's timber tenures or the amounts of any compensation, if any, cannot be estimated at this time.

Recently, the British Columbia Court of Appeal extended to a publicly traded forest company the Crown's duty to consult with an Aboriginal group in the context of a renewal of a tree farm licence. In a subsequent case, the British Columbia Supreme Court found that the Crown must also consult Aboriginal groups prior to approving a change in the control of a company which holds a forest licence. The duty to consult is triggered when the Crown is preparing to make a decision that may infringe Aboriginal and treaty rights. At this time, the existence and extent of any legal obligation of tenure holders to separately consult with Aboriginal groups remains unclear.

In 2002, the Government of British Columbia updated its Aboriginal Consultation Policy in an attempt to create more certainty for businesses and Aboriginal groups when decisions are made that could have an impact on Aboriginal interests. The policy creates implementation challenges for the Government of British Columbia. The impact on Interfor and its tenures, if any, remains unclear.

Stumpage Fees

Stumpage is the fee the British Columbia government charges companies to harvest timber from Crown land. Prior to February 29, 2004, the amount of stumpage paid for each cubic meter of wood harvested was based on a target rate set by government. Stumpage payments for a harvesting area took into consideration specific operating conditions, timber quality and administrative procedures.

Amending the stumpage system is complex and the subject of discussion involving, among other things, lumber trade issues between Canada and the United States. The move to a more open and competitive market pricing system for timber and logs for the coastal forest sector was announced by the British Columbia government on January 16, 2004 (see "New Coast Timber Pricing System" below). Periodic changes in the British Columbia government's administrative policy can affect stumpage costs and the viability of individual logging operations. There can be no assurance that current changes or future changes will not have a material impact on stumpage rates.

Environment

Interfor has certified all of its forest operations to meet world class environmental standards. The Company's leadership in environmentally responsible work is designed to address the growing public and consumer preference for quality wood products from well managed forests. The Company believes in promoting the use of its wood products as a good choice for the environment.

Interfor is subject to extensive environmental laws and regulation. The Company believes it is currently operating in compliance, in all material respects, with all applicable environmental laws and regulation. The Company conducts monitoring and independent assessments to verify its environmental performance.

Interfor has incurred, and will continue to incur, costs to comply with environmental laws. Enforcement of existing environmental laws and regulations has become increasingly strict. Interfor may discover currently unknown environmental problems or conditions relating to its past or present operations, or it may be faced with unforeseen environmental liability in the future. This may require site or other remediation costs to maintain compliance or correct violations of environmental laws and regulations or result in governmental or private claims for damage to person, property or the environment, which could have material adverse effect on Interfor's financial condition and results of operations.

A concern over the use of wood from old growth forests in British Columbia has been raised in the marketplace by certain groups seeking to preserve these forests. In response to market based needs, Interfor has worked proactively to provide factual information about sustainable forestry that will help its customers make environmentally responsible purchasing decisions. The Company has also been involved in a collaborative joint solutions project with certain environmental groups that has successfully addressed market based campaigns for areas of concern on the British Columbia coast. The effect of these market campaigns on Interfor's markets is not determinable at this time.

OUTLOOK FOR 2004

Markets

While no significant change in demand is anticipated in Interfor's principal markets in 2004, worldwide inventories are at lower levels and expectations for growth are higher than one year ago.

In the U.S., housing starts are projected to exceed 1.8 million units[1] for the second year in a row. In Japan, the improvement in economic conditions, which took place in the 2nd half of 2003, is expected to continue. Housing starts in Japan are projected to come in at 1.15 million units[1], with wooden starts remaining in the 44-45% range. Growth in China is expected to remain strong and will continue to influence world demand for logs and lumber.

The price of structural lumber in the U.S. is significantly higher than it was at this time last year and is forecast[1] to remain at reasonable levels throughout the year as long as demand remains strong. In addition, the prospects for cedar are better than one year ago. Prices have returned to pre-duty levels and cedar is well positioned to regain some lost market share in 2004.

Price levels in Japan increased in the last half of 2003 reflecting a combination of improved demand, beneficial currency shifts (Yen vs. US$ and CDN$ vs. Euro) and reduced supply from B.C. (due to curtailments). Green squares are currently trading in the US$650 - $675 range compared to US$500 earlier in 2003. The shift in the CDN$/Euro cross has significantly altered the competitive balance between Canadian and European products and provides the best opportunity for B.C. producers to recapture market share in Japan in the last five years.

Pulp prices are expected to improve slightly in 2004[2] reflecting the general state of the world market. However, formula driven chip prices are not expected to change significantly, and the price of pulp logs is expected to remain low.

1 RBC Capital Markets
2 CIBC World Markets

Softwood Lumber Dispute

Negotiations are expected to continue in 2004 in an attempt to find a solution to the lumber trade dispute with the U.S. Interfor is hopeful that a negotiated settlement can be reached, however in the absence of a settlement the Company will continue to participate in challenges to the WTO and NAFTA. Interfor remains confident that the allegations by U.S. protectionist interests will not stand up to independent scrutiny.

New Coast Timber Pricing System

On January 16, 2004 the Crown announced a new market based timber pricing system ("MPS") for the coastal forest sector, effective February 29, 2004, that will help revitalize the industry by ensuring competitive stumpage rates that better reflect global markets and local harvesting costs.

Timber prices will be based on the results of auctions of standing timber by B.C. Timber Sales, which currently represent 11% of the allowable annual cut in the Coast Forest Region. When the province-wide timber reallocation referred to above ("B.C. Forest Revitalization Plan") is complete, the portion of Crown timber sold at auction through B.C. Timber Sales will be 20%. The results will be used to determine the stumpage rates on the remaining 80% of Crown timber harvested by long-term tenure holders. The identification of land parcels on the coast to support timber pricing is expected to be completed in the summer.

Prices received for auctioned timber will still require adjustments before they are applied to the timber harvested under long-term tenure. Adjustments will be made for the responsibilities borne by licensees holding long-term tenures, including Interfor, but not by winners of auction sales. This adjustment is referred to as the "tenure obligation adjustment" and covers such responsibilities as planning costs, road building, reforestation and investment and risks in forest management.

Market based timber pricing is expected to be introduced in the Interior later in 2004.

Proposal to Acquire Certain Assets from Doman Industries Limited

On February 26, 2004 Interfor announced it had presented a proposal to Doman Industries Limited ("Doman") to acquire certain assets and to enable Doman to restructure its financial obligations. Doman has been operating under the protection of the *Companies Creditors Agreement Act* ("CCAA") since November 7, 2002. The Interfor proposal remains subject to further due diligence and regulatory and creditor approvals.

On March 2, 2004 the B. C. Supreme Court issued an order extending its stay of proceedings under the CCAA to April 5, 2004. The extension is intended to permit Doman to continue its efforts to develop a restructuring plan through discussions with certain unsecured noteholders of Doman and to allow time for the Interfor proposal to be further developed.

Operations

Interfor intends to increase operating levels in both woodlands and mills to rates significantly higher than those achieved in 2003. However, operating levels will be adjusted as market conditions change to keep inventories at prudent levels and to maximize cash flow.

Although it is too early to judge the outcome of the FIR – IWA labour mediation/arbitration process legislated by the Crown, in our view this process holds more potential to deliver meaningful reductions in labour costs than a traditional negotiation.

The new MPS came into effect on the Coast on February 29, 2004. The move to MPS is initially expected to result in reductions in average stumpage rates and enable a significant increase in coastal harvesting activity in 2004. The details of the 20% tenure takeback are still under discussion with the Ministry of Forests. The timetable for the completion of selection of tenures by the Crown and the actual takeback is currently mid-year 2004, with the possibility of falling into the last half of the year or into 2005. Arrangements for compensation and the coverage of 3rd party liabilities resulting from the takeback remain unclear.

Interfor plans to continue investing in discretionary capital projects which are designed to reduce costs, improve lumber recovery or increase a mill's ability to shift product to alternate markets. In addition, the Company will continue its spending on land development to prepare surplus properties for sale. Interfor expects the sale of portions of both the old Bay Lumber sawmill site in Pitt Meadows, B.C. and the McDonald Cedar site in Fort Langley, B.C. to complete in 2004.

Overall, while Interfor expects its financial results will improve in the months ahead, they are likely to remain under pressure through the early part of 2004. The Company intends to maintain a high level of financial discipline as the year progresses in order to ensure the best possible financial results.

ADDITIONAL INFORMATION

Additional information relating to the Company and its operations can be found in the Annual Information Form (see page 44) and on SEDAR at www.sedar.com.

FORWARD LOOKING STATEMENTS

This report contains statements that are forward looking in nature. Such statements involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by those forward looking statements. Such risks and uncertainties include, among others: general economic and business conditions, product selling prices, raw material and operating costs, changes in foreign currency exchange rates and other factors referenced herein.

International Forest Products Limited

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of International Forest Products Limited (Interfor) is responsible for preparing the accompanying consolidated financial statements. The financial statements were prepared in accordance with Canadian generally accepted accounting principles and are necessarily based in part on management's best estimates and judgements. The financial information included elsewhere (in the Statutory Reports) is consistent with that in the consolidated financial statements.

Interfor maintains a system of internal accounting control which management believes provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements. The internal accounting control process includes communications to employees of Interfor's standards for ethical business conduct.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board exercises this responsibility through its Audit Committee, the members of which are neither officers nor employees of Interfor. The Committee meets periodically with management and the independent Auditors to satisfy itself that each group is properly discharging its responsibilities and to review the consolidated financial statements and the independent Auditors' report. The Company's Auditors have full and free access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for issuance to the shareholders. The Committee also makes recommendations to the Board with respect to the appointment and remuneration of the Auditors.

The consolidated financial statements have been examined by the independent Auditors, KPMG LLP and their report follows.

D.K. Davies
President and Chief Executive Officer

John Horning
Senior Vice President and Chief Financial Officer

January 16, 2004

International Forest Products Limited

CONSOLIDATED FINANCIAL STATEMENTS

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of International Forest Products Limited as at December 31, 2003 and 2002 and the consolidated statements of operations, retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act (British Columbia) we report that, in our opinion, these principles have been applied on a consistent basis.

KPMG LLP

KPMG LLP, Chartered Accountants

Vancouver, Canada

January 16, 2004

International Forest Products Limited

Consolidated Balance Sheets
(Expressed in thousands of dollars)
December 31, 2003 and 2002

	2003	2002
Assets		
Current assets:		
Cash	$ -	$ 242
Accounts receivable	26,278	40,257
Inventories (note 3)	93,045	142,263
Prepaid expenses	6,680	6,298
Future income taxes (note 9)	4,505	12,166
	130,508	201,226
Investments and other assets:		
Investments and advances (note 4)	41,122	33,796
Deferred financing fee, net of accumulated amortization	53	-
	41,175	33,796
Property, plant and equipment (note 5)	194,660	196,155
Timber and logging roads, net of accumulated depletion and amortization	86,637	86,449
Goodwill (note 2 (b))	13,862	19,647
	$ 466,842	$ 537,273
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 6)	$ 12,951	$ -
Accounts payable and accrued liabilities	69,316	126,226
Income taxes payable	358	190
	82,625	126,416
Reforestation liability, net of current portion	21,044	21,763
Long-term debt (note 6)	-	50,000
Other long-term liabilities	14,463	9,406
Future income taxes (notes 2(b) and 9)	5,035	35,767
Shareholders' equity:		
Share capital (note 7):		
Issued and fully paid:		
Class A subordinate voting shares	293,462	218,455
Class B common shares	4,080	4,080
Contributed surplus	8,201	8,285
Retained earnings	37,932	63,101
	343,675	293,921
	$ 466,842	$ 537,273

Commitments and contingencies (note 10)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

W. L. Sauder, Director

J. A. Milroy, Director

International Forest Products Limited

Consolidated Statements of Operations

(Expressed in thousands of dollars, except earnings (loss) per share amounts)
Years ended December 31, 2003 and 2002

	2003	2002
Sales (note 1(j))		
Sales revenue before duties	$ 634,701	$ 808,609
Less U.S. countervailing and antidumping duty deposits (note 10(b))	31,040	24,469
	603,661	784,140
Costs and expenses:		
Production	591,234	660,446
Selling and administration	18,845	18,285
Amortization of plant and equipment	19,507	21,674
Depletion and amortization of timber, roads and other	16,581	32,051
Recovery of duties accrued in prior year (note 10(b))	-	(10,333)
Restructuring costs and write-downs of property, plant and equipment (note 8)	3,225	2,500
	649,392	724,623
Operating earnings (loss)	(45,731)	59,517
Other earnings (expenses):		
Interest expense on long-term debt	(1,775)	(3,050)
Other interest expense	(1,931)	(496)
Other income	3,298	1,352
BC Corporation capital tax	-	(209)
Equity in earnings of investee companies (note 4)	7,566	4,206
	7,158	1,803
Earnings (loss) before income taxes	(38,573)	61,320
Income taxes (note 9):		
Current	495	400
Future (recovery)	(16,078)	20,938
	(15,583)	21,338
Net earnings (loss)	$ (22,990)	$ 39,982
Net earnings (loss) per share (note 11):		
Basic	$ (0.58)	$ 1.12
Diluted	$ (0.58)	$ 1.11

See accompanying notes to consolidated financial statements.

Consolidated Statements of Retained Earnings

(Expressed in thousands of dollars)
Years ended December 31, 2003 and 2002

	2003	2002
Retained earnings, beginning of year	$ 63,101	$ 23,119
Share issue expenses, net of future income taxes	(2,179)	-
Net earnings (loss)	(22,990)	39,982
Retained earnings, end of year	$ 37,932	$ 63,101

See accompanying notes to consolidated financial statements.

International Forest Products Limited

Consolidated Statements of Cash Flows

(Expressed in thousands of dollars)

Years ended December 31, 2003 and 2002

	2003	2002
Cash provided by (used in):		
Operations:		
Net earnings (loss)	$ (22,990)	$ 39,982
Items not involving cash:		
Amortization of plant and equipment	19,507	21,674
Depletion and amortization of timber, roads and other	16,581	32,051
Future income taxes	(16,078)	20,938
Reforestation liability	(719)	1,296
Other long-term liabilities	5,057	(3,548)
Equity in earnings of investee companies	(7,566)	(4,206)
Write-down of property, plant and equipment	3,315	1,126
Other	(2,025)	(1,543)
	(4,918)	107,770
Changes in non-cash operating working capital:		
Accounts receivable	13,881	(15,869)
Inventories	49,218	(20,545)
Prepaid expenses	(382)	(704)
Accounts payable and accrued liabilities	(56,908)	12,452
Income taxes	168	4,653
	1,059	87,757
Investments:		
Additions to property, plant and equipment	(23,275)	(17,067)
Additions to logging roads and timber	(16,625)	(24,028)
Proceeds on disposal of property, plant and equipment	3,494	3,467
Investments and other assets	528	3,582
	(35,878)	(34,046)
Financing:		
Repurchase of capital stock	(923)	(1,974)
Issuance of capital stock, net of expenses	72,549	94
Long-term debt	(50,000)	(50,000)
Bank indebtedness	12,951	(1,589)
	34,577	(53,469)
Increase (decrease) in cash	(242)	242
Cash, beginning of year	242	-
Cash, end of year	$ -	$ 242
Supplementary disclosures:		
Cash interest paid	$ 3,706	$ 3,546
Cash income taxes paid	495	400

See accompanying notes to consolidated financial statements.

1. **Significant accounting policies:**

(a) Principles of consolidation:

These consolidated financial statements include the accounts of the Company's wholly owned subsidiaries Saltair Timber Products Ltd., Primex Fibre Ltd., Helifor Industries Limited, Interfor Japan Ltd., Cedarprime Inc., 372624 B.C. Ltd., 670888 British Columbia Ltd., and 672802 British Columbia Ltd.

(b) Inventories:

Lumber inventories are valued at the lower of cost and net realizable value on a specific product basis. Log inventories are valued at the lower of cost and net realizable value on a specific boom basis. Other inventories consist primarily of supplies and are recorded at cost.

(c) Investments and advances:

Investments over which the Company is able to exert significant influence are accounted for on the equity basis. Other investments are accounted for on the cost basis.

(d) Property, plant and equipment and timber and logging roads:

Property, plant and equipment and timber and logging roads are recorded at cost. Amortization on plant and equipment is provided on a straight-line basis during periods of production at rates (ranging from 5% to 20%) based on the estimated useful lives of the assets. Timber licence depletion and road amortization are computed on the basis of timber cut relative to available timber. Tree farm and forest licences are depleted on a straight-line basis over 40 years.

(e) Reforestation liability:

Forestry legislation in British Columbia requires the Company to incur the cost of reforestation on its forest and timber licences. Accordingly, the Company records the estimated cost of reforestation as the timber is cut. These costs are included in the cost of current production.

(f) Environmental costs:

Environmental expenditures are expensed or capitalized depending upon their future economic benefit. Expenditures that prevent future environmental contamination are capitalized as plant and equipment. Expenditures that relate to an existing condition caused by past operations are expensed. Liabilities are recorded on an undiscounted basis when rehabilitation efforts are likely to occur and the costs can be reasonably estimated.

(g) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of arbitration, restructuring, reforestation, road deactivation and environmental obligations, recoverability of assets and rates for depletion and amortization. Actual results could differ from those estimates.

(h) Income taxes:

Income taxes are accounted for under the asset and liability method. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. When the realization of future tax assets is not considered to be more likely than not, a valuation allowance is provided.

1. Significant accounting policies (continued):

(i) Share-based compensation:

The Company has share option plans and other share-based compensation plans for directors, officers and certain other eligible employees.

Prior to 2003, the Company followed the intrinsic value method of accounting for share options granted to directors, officers and employees. Since the exercise price of the Company's share options equaled or exceeded the trading price of the Company's shares at the date of grant, no compensation expense was recognized for these options when granted or exercised. When these options are exercised, the proceeds received by the Company will be credited to share capital on the consolidated balance sheet.

In 2003, the Company has adopted the fair value method of accounting for share options granted to directors, officers and employees. Under the fair value method, compensation expense is recorded for share options over the vesting period based on the estimated fair market value of the option at the date of grant. The Company has adopted the fair value method for all options issued in 2003 (nil) and applied this method prospectively commencing on January 1, 2003 as permitted by the transitional requirements.

In addition, the Company has not provided pro forma fair value disclosures for 2002 as the Company did not issue any options in 2002. For options issued prior to 2002 that have vested after January 1, 2002, the Company has not provided the fair value accounting disclosures as permitted by the transitional requirements.

For other share based compensation plans which are based on changes in the value of the Company's share price, the Company records an expense for changes in the estimated compensation over the vesting period based on the quoted market price of the Company's shares over the strike price of the grant.

(j) Sales recognition and presentation policies:

The Company recognizes sales to external customers when the product is shipped and title passes. Sales are recorded net of discounts and countervailing and antidumping duties (note 10(b)).

(k) Employee future benefits:

The estimated costs for pensions and other post-retirement benefits provided to employees by the Company is accrued using actuarial techniques and assumptions, including appropriate discount rate, during the employees' active years of service.

(l) Derivative financial instruments:

The Company uses derivative financial instruments for hedging purposes in the management of foreign currency and interest rate exposures. The Company's policy is not to use derivatives for trading or speculative purposes. The risk management strategies and relationships are formally documented and assessed on a regular, on-going basis to ensure the derivatives are effective in offsetting changes in fair values or cash flows of hedged items.

Foreign exchange exposure to foreign currency receipts and related receivables, primarily US currency, is managed through the use of foreign exchange forward contracts and options. The resulting foreign exchange translation gains and losses are recognized when realized on maturity in sales.

Exposure to interest rates on long-term debt is managed through the use of interest swaps. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Amounts accounted for under interest swap agreements are recognized as adjustments to interest expense.

(m) Net earnings per share:

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the reporting period. Diluted earnings per share are computed using the treasury stock method.

(n) Comparative figures:

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year.

(Tabular amounts expressed in thousands of dollars, except number of shares and per share amounts)

2. **Disposal and Reorganizations:**

(a) Disposal of subsidiary companies:

On January 31, 2003, the Company disposed of its wholly owned subsidiary, Westminster Wood Products Ltd. for cash proceeds of $400,000 and which resulted in a reduction of non-cash operating working capital of $97,000.

The Interfor/Kvamua Joint Venture was dissolved during 2003.

(b) Reorganizations:

During 2003, the Company reorganized its corporate structure which concluded in the wind-up of Primex Forest Products Ltd. and the Field Sawmills Limited Partnership. The reorganizations resulted in a reduction of goodwill of $5,700,000 and corresponding decrease to long term future income tax liability.

3. **Inventories:**

	2003	2002
Logs	$ 61,960	$ 102,816
Lumber	27,802	36,090
Other	3,283	3,357
	$ 93,045	$ 142,263

4. **Investments and advances:**

	2003	2002
Seaboard Shipping Company Limited	$ 31,458	$ 24,803
Other	9,654	8,993
	$ 41,112	$ 33,796

(a) Investment in Seaboard Shipping Company Limited:

The Company is the holder of 60% of the outstanding common shares of Seaboard Shipping Company Limited ("Seaboard"). The remaining common shares are held by other British Columbia forestry companies. Seaboard operates ocean-going vessels that provide service to world ports with contractual commitments for lumber and plywood volumes, as well as other general cargo. Although the Company owns over 50% of the common shares of Seaboard, the shareholders have entered into agreements that limit the Company's ability to control Seaboard's strategic financing, investing and operating decisions. In addition, net earnings of Seaboard are distributed based a percentage of shipments of product by the shareholders and not based on common share ownership.

The Company accounts for its investment in Seaboard using the equity method as follows. The initial investment in Seaboard is recorded at cost and the investment is increased for earnings of Seaboard based on the Company's percentage of earnings as determined based on its shipment percentage and decreased for distributions made by Seaboard. The Company's percentage of Seaboard's shipments is 69.6% in 2003 (2002 – 71.5%).

(Tabular amounts expressed in thousands of dollars, except number of shares and per share amounts)

4. Investments and advances (continued):

Summarized information of Seaboard is as follows:

	2003	2002
Total assets	$ 82,000	$ 82,000
Shareholders' equity	67,000	57,000
Net sales	67,000	83,000
Interfor's shipment percentage	69.6%	71.5%
Interfor's equity in earnings	$ 6,654	$ 4,020
Cash distributions received	-	3,675

(b) Other investments:

Other investments include a 49% interest in a specialty lumber remanufacturer, at a carrying value of $7,718,000 (2002 - $6,531,000), and various other long-term advances and minor investments. During the year, the Company recorded $912,000 (2002 - $186,000) in equity earnings and received no (2002 - $nil) cash distributions from other investee companies.

5. Property, plant and equipment:

2003	Cost	Accumulated amortization	Net book value
Land	$ 35,653	$ -	$ 35,653
Buildings	76,091	42,002	34,089
Machinery and equipment	265,790	158,300	107,490
Automotive equipment	17,350	14,646	2,704
Other	39,075	24,351	14,724
	$ 433,959	$ 239,299	$ 194,660

2002	Cost	Accumulated amortization	Net book value
Land	$ 31,416	$ -	$ 31,416
Buildings	75,881	41,403	34,478
Machinery and equipment	265,179	152,550	112,629
Automotive equipment	17,952	14,353	3,599
Other	35,645	21,612	14,033
	$ 426,073	$ 229,918	$ 196,155

6. Bank indebtedness and long-term debt:

(a) Bank indebtedness:

The Company has a maximum operating line of credit totaling $75,000,000 (2002 - $60,000,000). The line is subject to a borrowing base calculation dependent upon certain accounts receivable and inventories. As at December 31, 2003, the maximum borrowing available was $60,641,000 (2002 - $60,000,000), of which $42,200,000 (2002 - $56,530,000) was unused. The line utilization includes the total of outstanding letters of credit. The loan bears interest at bank prime plus a premium depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances. The line of credit is secured and is subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization. The line matures on April 29, 2004.

(Tabular amounts expressed in thousands of dollars, except number of shares and per share amounts)

6. Bank indebtedness and long-term debt (continued):

(b) Long-term debt:

		2003		2002
Bank term loans	$	-	$	50,000

The Company has available a revolving term line of credit (the "Revolving Line") which it increased on August 29, 2003 from $50,000,000 to $75,000,000. This line was not utilized as at December 31, 2003 (2002 - $nil). The Revolving Line bears interest at rates based on bank prime plus a premium, depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances. The line matures on April 29, 2005.

In 2001, the Company established a term line of credit (the "Acquisition Line") totaling $100,000,000, which was used to facilitate the acquisition of Primex Forest Products Limited. During 2003, the Company repaid $50,000,000 (2002 - $50,000,000), and the Acquisition Line, being fully repaid (2002 - $50,000,000), was subsequently cancelled.

Minimum principal amounts due on long-term debt within the next five years are follows:

2004	$	-
2005		-
2006		-
2007		-
2008		-

7. Share capital:

(a) Share transactions:

Authorized capital at December 31, 2003 and 2002 consists of:

100,000,000 Class A subordinate voting shares without par value

1,700,000 Class B common shares without par value

5,000,000 preference shares without par value

Share transactions during 2003 and 2002 were as follows:

	Number				
	Class A	Class B	Total		Amount
Balance, December 31, 2001	34,849,716	1,015,779	35,865,495	$	224,657
Share issuances	24,000	-	24,000		93
Share repurchases	(350,000)	-	(350,000)		(2,215)
Balance, December 31, 2002	34,523,716	1,015,779	35,539,495		222,535
Share issuances	12,983,680	-	12,983,680		75,846
Share repurchases	(132,500)	-	(132,500)		(839)
Balance, December 31, 2003	47,374,896	1,015,779	48,390,675	$	297,542

(Tabular amounts expressed in thousands of dollars, except number of shares and per share amounts)

7. **Share capital (continued):**

(a) Share transactions (continued):

The first 13-1/3¢ per share per annum of dividends to common shareholders declared are paid on the Class A shares. Any additional dividends must be declared in equal per share amounts on the Class A and B shares.

The Class B shares (carrying ten votes per share) are exchangeable into Class A shares (carrying one vote per share) at any time at the option of the holder or, under certain conditions which will result in the automatic conversion of the Class B shares into Class A shares, on the basis of one Class A share for one Class B share.

On September 11, 2003 the Company issued 12,900,000 Class A subordinate voting shares without par value at a price of $5.85 per share for gross proceeds of $75,465,000. The net proceeds of $72,170,000 after share issue costs were used to pay down existing bank indebtedness.

On November 15, 2002, the Company commenced a normal course issuer bid to acquire up to 2,979,000 Class A shares (representing approximately 8.54% of the outstanding Class A shares) through the facilities of the Toronto Stock Exchange. Purchases are made at market prices with a maximum of two percent of the outstanding shares being purchased in any 30-day period. During 2003 the Company acquired 132,500 Class A shares (2002 – 350,000) at a total cost of $923,000 (2002 – $1,973,000) and the shares were cancelled as purchased. The excess of the cost of the shares over the assigned value totaled $85,000 and has been charged to contributed surplus in the year ended December 31, 2003. In 2002 the assigned value exceeded the cost of the shares by $242,000 which was credited to contributed surplus in 2002. The program terminated on November 14, 2003.

At December 31, 2003, Class A shares are reserved for possible future issuance as follows:

(i) 1,015,779 Class A shares are reserved for the conversion of Class B shares; and

(ii) 2,832,420 Class A shares are reserved for possible issuance pursuant to the share option plan.

(b) Share option plan:

The Company has an employee share option plan for its key employees and directors. The vesting of the options occurs at a rate of 40% two years after granting and 20% per annum thereafter. Options expire ten years after the date of the grant. Options outstanding at December 31, 2003 are exercisable at prices ranging from $3.65 to $9.00 per share, the closing market price for the shares on the dates that the options were granted. The options expire at various dates between July 30, 2007 and April 30, 2011.

Details of the Company's share option plan for the years ended December 31, 2003 and 2002 are as follows:

	2003		2002	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	2,257,300	$ 4.58	2,743,800	$ 4.87
Granted	-	-	-	-
Exercised	(83,680)	4.55	(24,000)	3.90
Expired or cancelled	(11,600)	4.57	(462,500)	6.34
Outstanding, end of year	2,162,020	$ 4.59	2,257,300	$ 4.58
Options exercisable, year end	1,292,640	$ 4.75	753,240	$ 5.05

(Tabular amounts expressed in thousands of dollars, except number of shares and per share amounts)

7. Share capital (continued):

(b) Share option plan (continued):

Details of options outstanding under the share option plan at December 31, 2003 are as follows:

		Options outstanding		Options exercisable	
Range of exercise prices	Number outstanding, December 31, 2003	Weighted average remaining option life (yrs)	Weighted average exercise price	Number exercisable, December 31, 2003	Weighted average exercise price
$9.00	43,400	3.6	$ 9.00	43,400	$ 9.00
$3.65-$5.00	2,118,620	6.2	4.50	1,249,240	4.60
	2,162,020		$ 4.59	1,292,640	$ 4.75

(c) Share Appreciation Rights Plan:

Awards under the Share Appreciation Rights Plan ("SAR Plan") have been granted to directors, officers and senior managers of the Company. Under the SAR Plan, awards will be expensed over the vesting periods when the market price of the common shares exceeds the strike price under the plan. Changes in the quoted market value of those shares between the date of grant and the measurement date result in a change in the measure of the compensation for the award and will be amortized over the remaining vesting periods. The SAR Plan uses notional units that are valued based on the Company's common share price on the Toronto Stock Exchange. The units are exercisable for cash if the incremental common share price thresholds are achieved or other performance measures met.

	2003		2002	
	Shares	Weighted average strike price	Shares	Weighted average strike price
Outstanding, beginning of year	751,700	$ 4.33	-	$ -
Granted	373,600	6.45	764,100	4.33
Exercised	-	-	-	-
Expired or cancelled	(19,700)	5.04	(12,400)	4.33
Outstanding, end of year	1,105,600	$ 5.03	751,700	$ 4.33
Units exercisable, year end	-	$ -	-	$ -

Details of units outstanding under the SAR Plan at December 31, 2003 are as follows:

		Units outstanding		Units exercisable	
Strike price	Number outstanding, December 31, 2003	Weighted average remaining unit life (yrs)	Weighted average strike price	Number exercisable, December 31, 2003	Weighted average strike price
$4.33	738,600	8.0	$ 4.33	-	$ 4.33
$6.45	367,000	9.0	6.45	-	6.45
	1,105,600		$ 5.03	-	$ -

(Tabular amounts expressed in thousands of dollars, except number of shares and per share amounts)

7. Share capital (continued):

(c) Share Appreciation Rights Plan (continued):

The Company has recorded compensation expense of $470,000 (2002 - $382,000) for the year ended December 31, 2003. Accrued compensation payable on unexercised units totaled $852,000 (2002 - $382,000) at December 31, 2003.

(d) Total Shareholder Return Plan

In 2003, the Company introduced a Total Shareholder Return Plan ("TSR Plan") for certain key executives. Under the TSR Plan, the Company will pay compensation to the TSR Plan members if the compound annual growth rate of the Company's share price exceeds 5% per annum over a three year period. The amount of compensation payable varies with the amount of the compound annual growth rate to a maximum of 15% per annum, the member's salary and a target award amount. For the first three year period which commenced in fiscal 2003, minimum target awards have been guaranteed irrespective of the actual compound growth rate. The Company has accrued and expensed $1,063,000 for the year ended December 31, 2003 (2002 - $nil) in respect of the TSR Plan.

8. Restructuring costs and write-downs of property, plant and equipment:

The Company recorded restructuring costs, and write-downs of property, plant and equipment consisting of the following:

	2003	2002
Property, plant and equipment write-downs	$ 3,165	$ 250
Severance and other restructuring costs	2,960	2,250
Other (recoveries)	(2,900)	-
	$ 3,225	$ 2,500

In light of poor lumber markets, the continuing U.S. softwood lumber dispute (note 10 (b)), the 20% reduction of the Company's timber tenures (note 10 (c)), and the continued strength of the Canadian dollar against the U.S. dollar, the Company reduced staff levels and made the decision to permanently close its Specialty Products Division.

Accordingly, the Company recorded $3,165,000 in write-downs of property, plant and equipment and $2,960,000 in severance and other related restructuring costs. These amounts were partially offset by a reversal of previously accrued restructuring costs of $2,900,000.

As at December 31, 2003, $1,621,000 (2002 - $10,165,000) in severance and other cash restructuring costs are included in accounts payable and accrued liabilities. The Company expects to pay this amount in 2004 in accordance with its restructuring plans.

(Tabular amounts expressed in thousands of dollars, except number of shares and per share amounts)

9. **Income taxes:**

Future income taxes are determined as follows:

	2003	2002
Future income tax assets:		
Losses carried forward	$ 26,023	$ 4,214
Reforestation, restructuring and other accruals deductible when paid	18,434	21,293
Other	569	-
	45,026	25,507
Valuation allowance	-	-
	45,026	25,507
Future income tax liabilities:		
Property, plant and equipment	(45,556)	(46,948)
Other	-	(2,160)
	$ (530)	$ (23,601)
Current future income tax assets	$ 4,505	$ 12,166
Non-current future income tax assets (liabilities)	(5,035)	(35,767)
	$ (530)	$ (23,601)

The Company's effective income tax rate is determined as follows:

	2003	2002
Basic federal and provincial tax rate	42.6%	42.6%
Manufacturing and processing allowance	(6.8)	(5.2)
Large corporations tax	(1.1)	1.3
Other	(1.2)	(1.5)
	33.5%	37.2%

The Company's provision for income taxes (recovery) is determined as follows:

	2003	2002
Earnings (loss) before income taxes	$ (38,573)	$ 61,320
Equity in earnings of investee companies	(7,566)	(4,206)
Non-deductible expenses and other	(385)	287
Accounting earnings (loss)	$ (46,524)	$ 57,401
Income taxes (recovery) at 33.5% (2002 - 37.2%)	$ (15,583)	$ 21,338

(Tabular amounts expressed in thousands of dollars, except number of shares and per share amounts)

10. Commitments and contingencies:

(a) Operating leases:

The Company is obligated under various operating leases requiring minimum annual rental payments in each of the next five years as follows:

2004	$ 8,300,000
2005	2,500,000
2006	2,300,000
2007	2,200,000
2008	2,000,000

(b) Contingent liability:

On March 21, 2002 and further adjusted on April 25, 2002, the U.S. Department of Commerce ("USDOC") issued its final determination in the countervailing and antidumping investigations. The USDOC's final determination in the countervailing investigation resulted in a duty rate of 18.79% to be posted by cash deposits from the effective date of the Final Order (May 22, 2002 as discussed below). The USDOC's final determination in the antidumping investigation resulted in Company specific duty rates ranging from 2.18% to 12.44% on the six companies investigated and an all other rate of 8.43% for all other companies including this Company.

On May 16, 2002, the U.S. International Trade Commission ("USITC") published its final written determination on injury and stated that Canadian softwood lumber threatens material injury to the U.S. industry. As a result, effective from the Final Order date of May 22, 2002, cash deposits are required for shipments at the rates determined by the USDOC. All prior bonds or cash deposits posted prior to May 22, 2002 were refunded.

The Company has recorded $31,040,000 (2002 - $24,469,000) as a reduction of sales revenue for the year ended December 31, 2003 representing the combined final countervailing and antidumping duties of 27.22%.

The Company had accrued $8,860,000 for the period from August 17, 2001 to December 15, 2001 representing the preliminary USDOC countervailing duty rate of 19.31%, and $6,956,000 for the period from November 6, 2001 to May 6, 2002, representing the preliminary USDOC antidumping duty rate of 12.58%. In April 2002, the Company reversed these accruals, totaling $15,816,000 or $0.27 per share, to reflect the effective date of the Final Order. Of the amount reversed, $10,333,000 relating to fiscal 2001 sales was recorded as a non-recurring item. The remaining reversal of $5,483,000 related to 2002 and has been recorded as a credit to sales. Any further adjustments resulting from a change in the countervailing and antidumping duty rates will be made prospectively.

The Company and other Canadian forest product companies, the Federal Government and Canadian provincial governments ("Canadian Interests") categorically deny the U.S. allegations and strongly disagree with the final countervailing and antidumping determinations made by the USITC and USDOC. Canadian Interests continue to pursue appeals of the final countervailing and dumping determinations with the appropriate courts, NAFTA panels and the WTO. The final amount of countervailing and antidumping duties that may be assessed on Canadian softwood lumber exports to the U.S. cannot be determined at this time and will depend on appeals of the final determinations to any reviewing courts, NAFTA or WTO panels. Notwithstanding the final rates established in the investigations, the final liability for the assessment of countervailing and antidumping duties will not be determined until each annual administrative review process is complete.

(Tabular amounts expressed in thousands of dollars, except number of shares and per share amounts)

10. Commitments and contingencies (continued):

(c) B.C. Forest Revitalization Plan:

In March 2003, the Government of B.C. ("Crown") introduced the Forestry Revitalization Plan (the "Plan") that provides for significant changes to Crown forest policy and to the existing allocation of Crown timber tenures to licensees. The changes prescribed in the Plan include: the elimination of minimum cut control regulations, the elimination of existing timber processing regulations, and the elimination of restrictions limiting the transfer and subdivision of existing licenses. As well, through legislation, licensees, including the Company, will be required to return 20% of their replaceable tenure to the Crown. The Plan states that approximately half of this volume will be redistributed to open opportunities for woodlots, community forests, and First Nations, and the other half will be available for public auction. The Crown has acknowledged that licensees will be fairly compensated for the return of tenure and related costs such as roads and bridges.

The effect of the 20% timber take-back is expected to result in a reduction of approximately 579,000 cubic metres of the Company's existing allowable annual cut on their replaceable tenures. The effect of the Plan on the Company's financial position and results of operations cannot be determined at this time. The Company will record the effects of the Plan at the time the amounts to be recorded can be estimated.

(d) Other contingencies:

The Company is subject to a number of claims arising in the normal course of business in respect of which either an adequate provision has been made or for which no material liability is expected.

11. Net earnings (loss) per share:

Net earnings (loss) per share is calculated utilizing the treasury stock method approach for determining the dilutive effect of options issued. The reconciliation of the numerator and denominator is determined as follows:

	2003			2002		
	Net earnings (loss)	Shares	Per share	Net earnings (loss)	Shares	Per share
Basic earnings (loss) per share	$ (22,990)	39,456	$ (0.58)	$ 39,982	35,857	$ 1.12
Share options	-	-		-	153	
Diluted earnings (loss) per share	$ (22,990)	39,456	$ (0.58)	$ 39,982	36,010	$ 1.11

12. Pension plans:

The Company maintains pension benefit plans which include a defined contribution plan that is available to all salaried employees and a defined benefit plan that is available to hourly employees not covered by a union pension plan.

(a) For the defined contribution plan, the Company's contributions are based on a percentage of an employee's earnings with the employee's pension benefits based on these contributions along with investment earnings on the contributions. For the defined contribution plan, the Company's funding obligations are satisfied upon crediting contributions to an employee's account. For 2003, the pension expense for this plan is equal to the Company's contribution of $2,028,000 (2002 - $1,926,000).

(Tabular amounts expressed in thousands of dollars, except number of shares and per share amounts)

12. Pension plans (continued):

(b) The defined benefit plan provides a pension based on years of service.

Information about the Company's defined benefit plan is as follows:

	2003	2002
Accrued benefit obligation:		
Beginning of year	$ 11,401	$ 10,648
Service cost	430	373
Interest cost on accrued benefit obligation	814	746
Benefit payments	(367)	(366)
Experience loss on change of discount rate	1,029	-
End of year	13,307	11,401
Plan assets:		
Fair value, beginning of year	9,572	10,240
Actual return on plan assets	1,191	(675)
Contributions	430	373
Benefit payments	(367)	(366)
Fair value, end of year	10,826	9,572
Unfunded liability	2,481	1,829
Actuarial gain (loss)	(2,099)	(1,639)
Employee future benefits liability	$ 382	$ 190

The Company's net expense for the Company's defined benefit pension plan is as follows:

	2003	2002
Current service cost	$ 328	$ 373
Interest cost	814	746
Expected return on plan assets	(671)	(717)
Amortization of experience losses	49	-
	$ 520	$ 402

Actuarial assumptions used in accounting for the Company-maintained benefit plans are:

	2003	2002
Discount rate	6.5%	7.0%
Expected return on plan assets	7.0%	7.0%
Compensation increases	Not applicable	Not applicable

(c) Unionized employees of the Company and its subsidiaries are members of industry-wide benefit plans to which the Company contributes a predetermined amount per hour worked by an employee. For 2003, the pension expense for these plans is equal to the Company's contribution of $4,253,000 (2002 - $5,810,000).

(Tabular amounts expressed in thousands of dollars, except number of shares and per share amounts)

12. Pension plans (continued):

(d) The Company has agreed to provide supplementary pension benefits to certain members of its senior management. A number of the commitments are for defined benefit amounts currently being paid to retired senior managers of the Company, and the remainder are in the form of a notional extension of the defined contribution plan. These commitments are not funded but are fully accrued by the Company, with some of the commitments being secured by irrevocable letters of credit. The amounts accrued are as follows:

	2003	2002
Accrual for defined contribution commitments	$ 1,176	$ 772
Accrual for defined benefit commitments	2,237	2,104

13. Related party transactions:

Lumber sales to an affiliate of a significant shareholder amounted to $5,283,000 (2002 - $5,377,000) and to an investee company, $2,419,000 (2002 - $3,789,000). Shipping services provided by Seaboard Shipping Company Limited totaled $19,349,000 (2002 - $20,178,000). These transactions were conducted on a normal commercial basis, including terms and prices.

14. Segmented information:

The Company manages its business as a single operating segment, solid wood. The Company harvests logs which are sorted by species, size and quality and then either manufactured into lumber products at the Company's sawmills, or sold. Substantially all operations are located in British Columbia, Canada.

The Company sells to both foreign and domestic markets as follows:

	2003	2002
Canada	$ 234,805	$ 319,031
United States	137,729	190,070
Japan	151,066	202,096
Other export	80,061	72,943
	$ 603,661	$ 784,140

Sales by product line are as follows:

	2003	2002
Lumber	$ 450,458	$ 590,763
Logs	90,822	137,602
Wood chips and other by products	28,499	31,041
Other	33,882	24,734
	$ 603,661	$ 784,140

15. Financial instruments:

(a) Fair value of financial instruments:

The Company had no long term debt at December 31, 2003. At December 31, 2002, the fair value of the Company's long-term debt, including the portion due within one year, approximated its carrying value of $50,000,000 as the majority of the long-term debt bore interest at current market rates. The fair values of other financial instruments approximate their carrying values due to their short-term nature.

(b) Derivative financial instruments:

The Company employs financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign exchange rates. The Company does not expect any credit losses in the event of non-performance by counter parties as the counter parties are the Company's bankers.

As at December 31, 2003, the Company has outstanding obligations to sell a maximum of US$10,000,000 at an average rate of CDN$1.324 and Japanese ¥330,000,000 at an average rate of ¥81.85 to the CDN$ during 2004. Based on the exchange rates at December 31, 2003, the Company had unrealized gains of $237,000 with respect to these hedging arrangements.

There were no interest rate swaps outstanding as at December 31, 2003.

(c) Sale of receivables:

During 2000, the Company entered into an agreement to sell designated trade receivables, with limited recourse, to a Trust. As these trade receivables are collected, they are replaced by new receivables to maintain the aggregate outstanding balance. At December 31, 2003, the Company received cash proceeds of $10,000,000 (2002 - $20,000,000) from the sale.

International Forest Products Limited

ANNUAL INFORMATION FORM

Dated as of March 7, 2004

DESCRIPTION OF THE BUSINESS

International Forest Products Limited is one of western Canada's largest logging and sawmilling companies producing a diversified range of quality wood products for sale to world markets. It harvests timber and manufactures and markets lumber products, logs, and wood chips. The Company has 35 logging operations and six sawmills in the southern coastal region of British Columbia ("B.C.") and has one logging operation and one sawmill in the central interior region.

The Company was incorporated under the *Company Act* (British Columbia) on May 6, 1963. On December 1, 1979 the Company amalgamated with its subsidiary, Whonnock Forest Products Limited. On January 1, 1988 the Company changed its name from Whonnock Industries Limited to International Forest Products Limited. Its principal office as well as its registered and records offices are located at Suite 3500, 1055 Dunsmuir Street, Vancouver, British Columbia, V7X 1H7.

In this document, a reference to the "Company" or "Interfor" means International Forest Products Limited and its predecessors and all its subsidiaries. The four major subsidiaries, CEDARPRIME Inc., Saltair Timber Products Ltd., Helifor Industries Limited and Interfor Japan Ltd., whose operations are described below, are wholly-owned and controlled by Interfor. CEDARPRIME Inc. is incorporated in the State of Washington and the other three subsidiaries are incorporated under the laws of B.C.

HISTORY

Interfor's business originated in the 1930s with a sawmill in Whonnock, about 48 kilometers east of Vancouver. The mill utilized timber from logging operations in nearby forest areas. Since that time, the Company has made significant investments to expand and upgrade its production facilities and timber base and increase annual lumber capacity through the acquisition of companies with manufacturing plants and timber resources.

In 1971, the Company expanded geographically from the coastal region to`the central interior of British Columbia by acquiring Holding Lumber Company Limited which owned and operated a sawmill in the central interior of British Columbia at Adams Lake near Kamloops. In 1976, Interfor acquired the Pacific Pine Division of Triangle Pacific Forest Products Ltd. in New Westminster.

In 1977, Sauder Industries Limited acquired a controlling interest in the Company (since transferred to Mountclair Investment Corporation, a Sauder family holding company). During the following two years Interfor acquired further sawmills and timber rights by the purchase of McDonald Cedar Products Ltd. and Bay Forest Products Ltd.

In November 1980, to increase future log supply and to diversify into pulp, Interfor participated equally with two other forest companies in organizing Western Forest Products Limited which acquired the British Columbia timber and manufacturing facilities of ITT Industries of Canada Limited. During 1981, Interfor purchased the sawmilling assets of Imp-Pac Lumber Ltd., which are now operated as MacKenzie Seizai.

In December 1983, the Company was required to close the Bay Forest Products sawmill to allow for development of the Expo '86 site in Vancouver. In March 1984, Interfor acquired from CIPA Industries Ltd. a sawmill (renamed the Bay Lumber sawmill) at Pitt Meadows, 30 kilometres east of Vancouver. In the same transaction, Interfor acquired three coastal logging operations and related timber holdings.

During the period 1986 through 1990, Interfor implemented a $120 million capital expenditure program. This program was designed to lower manufacturing costs and to better utilize the supply of small logs from its timber base. It included the construction of a Linck system at Western Whitewood and significant modifications to the Bay Lumber sawmill and the McDonald Cedar sawmill.

In 1989, the Company disposed of its interest in Western Forest Products Limited, including its leasehold interest in the Silvertree sawmill.

In December 1991, Interfor acquired from Fletcher Challenge Canada Limited and Crown Forest Industries Limited substantial timber tenures and cutting rights, a sawmill and a planer mill at Coquitlam, British Columbia and a cedar sawmill and planer mills at Maple Ridge, British Columbia together with 20 logging operations.

In December 1992, Interfor closed the Pioneer Lumber sawmill as a result of a reduction to the Company's annual cutting rights.

In February 1995, Interfor acquired from Weldwood of Canada Limited timber tenures and related logging operations representing approximately 976,000 cubic metres of annual cutting rights, a sawmill and planer mill at Squamish, British Columbia and a cedar sawmill and planer mills at Port Moody, British Columbia.

During 1996, the large log cedar sawmill acquired from Weldwood was replaced with a small log cedar sawmill and the Bay Lumber Sawmill was permanently closed.

During October 1997, the McDonald Cedar Sawmill was closed. A Western Red Cedar value-added plant, McDonald Reman, was constructed on the site during 1998.

In June 1998, the Company began a restructuring program which included aggressive cost cutting measures through simplifying and streamlining the Company’s logging and sawmilling operations and administrative procedures. It also involved rationalizing the Company’s production capacity to correspond with its timber supply and markets. As a result, the Flavelle sawmill was sold and several other mills experienced changes in the roles they were assigned, including the products they produced.

In May 2001, the Company acquired 96% of the shares of Primex Forest Products Ltd. through a public offering and in July 2001, acquired the remaining outstanding shares. To finance the acquisition, Interfor issued 3,783,454 Class “A” subordinate voting shares with a fair market value of $16,080,000 and incurred debt of $98,389,000. The operations of Primex included two sawmills, two remanufacturing facilities and a 49% interest in a secondary manufacturing company. In October 2001, the sawmill operations of Fraser Mills were permanently closed but the remanufacturing facilities continued to process lumber for other Interfor sawmills.

In 2002, the Company continued to benefit from its cost-cutting measures, increased production levels and a weak Canadian dollar as it earned $40.0 million, the highest level of earnings in more than eight years. In November 2002, the business and operating equipment of McDonald Reman was relocated to Sumas Washington operating as CEDARPRIME Inc.

In 2003, a combination of U.S. duties on softwood lumber, a stronger Canadian dollar, difficult market conditions in Japan and a four-week labour strike contributed to lower operating levels and a net loss of $23 million. However, after changes in working capital, the Company generated a modest cash flow from operations of $1 million. In September 2003, Interfor completed an equity issue of 12,900,000 shares at $5.85 per share and used the proceeds primarily to pay down existing bank indebtedness.

Early in 2004, lumber prices in North America and Japan improved and a new stumpage system was implemented on the coast of B.C. which is expected to reduce stumpage rates for the year. These improvements are expected to lead to higher log and lumber production for the year, but significant challenges remain, including those related to currencies, duties and labour. See Management Discussion and Analysis beginning on page 11.

On February 26, 2004, Interfor announced it had presented a proposal to Doman Industries Limited to acquire certain assets and to enable Doman to restructure its financial obligations. The proposal remains subject to further due diligence and regulatory and creditor approvals.

TIMBER AND LOGGING

Timber Supply

The Province of British Columbia owns 95% of all timber lands in the Province and regulates forestry operations on these lands under the Forest Act and the Forest and Range Practices Act. The Forest Act empowers the Minister of Forests to grant timber tenures including Forest Licences, Tree Farm Licences, and Timber Licences.

A Forest Licence grants the right to cut a specific volume of timber on public lands in a managed forest area called a Timber Supply Area. A Forest Licence has a term not exceeding 20 years (usually 15 years) and is renewable every five years for a 15 year term subject to satisfactory performance by the licensee of its cutting and reforestation obligations as determined by the Ministry of Forests.

A Tree Farm Licence is granted to a licensee that undertakes to manage an area of timber land to yield an annual harvest on a sustainable basis. A Tree Farm Licence is granted for a term of 25 years and is renewable every five years for those whose term commenced after July 1, 1993 and for ten years for those whose term commenced before July 1, 1993 for a further 25 year term subject to satisfactory performance by the licensee of its cutting and reforestation obligations as determined by the Ministry of Forests.

Under Tree Farm Licences and Forest Licences, an allowable annual cut ("AAC") is determined by the Ministry of Forests. The actual harvest may vary in any particular year, but the average annual cut may not exceed 110% of the AAC over a five year period.

A Timber Licence grants the licensee the right to cut merchantable timber from a prescribed area of Crown Land over a specified term and is not renewable but may be extended by the Minister of Forests. The term of each Timber Licence is negotiated between the Ministry of Forests and the licensee and is designed to allow sufficient time for the orderly harvesting of the merchantable timber on the Timber Licence. The Ministry may extend the terms of existing Timber Licences if they consider that forest management would be improved by doing so.

In the coastal region, Interfor currently holds four Tree Farm Licences and ten renewable Forest Licences in eight Timber Supply Areas authorizing it to harvest 2,889,000 cubic metres of Crown timber each year until the AAC take-back described below is completed. Additionally, Interfor holds the cutting rights on coastal Timber Licences on which it intends to cut approximately 70,000 cubic metres of timber in 2004. Since the annual volume from these tenures is unregulated, it provides the Company with the flexibility to schedule its harvesting based on log markets, thus allowing the maximization of its value.

In the interior region, Interfor holds one renewable Forest Licence authorizing it to harvest 250,000 cubic metres of Crown timber each year. Commencing in 2003, for a period of five years, the available cut was increased by 15,000 cubic metres per year in recognition of the increased AAC resulting from the recently approved Innovative Forest Practices Agreement. In addition, Interfor holds one Timber Licence under which it intends to cut approximately 30,000 cubic metres of logs over the next five years.

In March 2003, the Government of B.C. introduced the Forestry Revitalization Plan that provides for significant changes to forest policy and timber allocation in the Province. The Plan eliminates certain cut-control provisions and restrictions on the transfer of forest tenures but it also requires major tenure holders to return approximately 20% of their tenure for reallocation to the B.C. Timber Sales Program, First Nations and communities. The Government has committed to provide compensation for the return of these tenures but the specifics of the compensation have not been determined. It is expected, however that the Plan will result in greater opportunities for log purchases. For Interfor, the loss of AAC on the coast and interior will be approximately 579,000 cubic metres. In addition, the Company will lose 20% of its area under Timber Licences.

In February 2004, the Government notified the Company of the specific AAC by individual licence that it intended to take back. A number of details including transition issues must be resolved before a transfer date can be established. Since this process is expected take several years, the Company is permitted to operate in these areas until the transfer date.

The log requirements of Interfor's coastal mills are met using logs harvested from its timber tenures, by long term trade and purchase agreements, and by purchases on the open market. Logs produced but unsuitable for use in Interfor's mills are either traded for suitable logs or sold on the open market. Operating at normal capacity, the required minimum proportion of logs purchased on the open market is approximately 45% of coastal log consumption.

Interfor's cutting rights in the interior region provide approximately 35% of its interior mill requirements. Additional mill requirements are purchased from private landowners, small business licencees and other forest products companies.

Interfor's coastal timber supply currently consists of a species mix of approximately 51% hemlock-balsam, 31% western red cedar, 13% Douglas fir, 1% spruce, and 4% cypress. Approximately 75% of its logs harvested in the coastal region are derived from old growth timber stands. The species mix of Interfor's harvest changes as the Company moves to different locations and, over the next several decades, there will be a gradual shift from harvesting old growth to second growth forests.

In the interior, Interfor's long-term timber supply consists of a species mix of approximately 5% hemlock, 12% western red cedar, 33% Douglas fir, and 50% SPF (spruce- pine-fir).

The following tables show Interfor's AAC under its Forest and Tree Farm Licences and other cutting rights and the volume of timber harvested under Interfor's Forest and Timber Licences and other cutting rights in each region for the periods specified. They also show the volume of purchases, sales, and consumption during that period.

	Years ended December 31					
	2004	2003	2002	2001	2000	1999
		(thousands of cubic metres)				
Allowable Annual Cut (1)						
— Forest Licences	2,603	2,603	2,782	2,782	2,811	2,845
— Tree Farm Licences	551	551	563	666	666	666
— Discretionary Annual Harvest Levels (2)	70	80	80	187	180	180
— Less Provision for Harvest Take-back (3)	(579)	—	—	—	—	—
	2,655	3,234	3,425	3,635	3,657	3,691
Actual Cut						
Coast						
— Forest Licences		1373	2,179	1,996	2,404	2,289
— Tree Farm Licences		195	444	474	538	611
— Timber Licences & other cutting rights (2)		75	15	34	192	307
		1,643	2,638	2,504	3,134	3,207
Interior						
— Forest Licence		279	266	229	252	231
— Timber Licences (2)		—	7	27	21	11
		279	273	256	273	242
Total Actual Cut		1,922	2,911	2,760	3,407	3,449
Purchases		1,557	2,035	1,893	1,093	950
		3,479	4,946	4,653	4,500	4,399
Log Utilization						
— Consumption		2,824	3,400	2,919	2,729	2,469
— Logs Chipped		6	5	17	20	31
— Sales		1,125	1,375	1,581	1,803	1,992
Total		3,955	4,780	4,517	4,552	4,492

(1) AAC includes a provision for non-recoverable fibre.
(2) Volumes not included in Annual Allowable Cut.
(3) AAC take-back under the Forestry Revitalization Plan is expected to occur during 2005 and 2006.

Stumpage

A stumpage charge is assessed by the Government of B.C. on all Crown timber harvested. Until February 29, 2004, the amount of stumpage paid on Forest License, Tree Farm License and Timber License tenures was based on a target rate set by the Government and adjusted on a periodic basis. After that date, the system was replaced with a market pricing system which will periodically recalculate stumpage based on log markets. Individual stumpage rates for each cutting permit will continue to be calculated taking into consideration various factors such as species, site and operating costs.

Stumpage and royalty payments in relation to profitability is shown below for the periods specified.

	Years ended December 31				
	2003	2002	2001	2000	1999
	(thousands of dollars)				
Earnings (loss) before stumpage and income taxes	$(9,209)	$111,242	$(8,025)	$82,371	$ (14,327)
Stumpage and royalty payments	29,364	49,922	32,754	28,953	35,857
Earnings (loss) before income taxes	(38,573)	61,320	(40,779)	53,418	(50,184)
Income tax provision (recovery)	(15,583)	21,338	(14,895)	22,742	(19,425)
Net earnings (loss)	**(22,990)**	**$39,982**	**$(25,884)**	**$ 30,676**	**$(30,759)**

Forest Management

Interfor is responsible for managing forest resources under license in accordance with the requirements of all governmental laws and regulations. The Company operates in compliance with the Forest Practices Code which is a comprehensive set of government legislation that governs all facets of forestry activities.

The sustainable management of forestry resources within the Company's tenures is guided by a team of qualified staff including Registered Professional Foresters, Technologists and technicians. Interfor's personnel are engaged in activities such as resource planning and development, harvesting, reforestation, forest protection, and certification.

Interfor recognizes that it must constantly develop new and innovative ways of conducting forestry to meet the changing expectations of society. The Company maintains an Environment Management System and has developed a Sustainable Forest Management Plan to guide and continually improve its management of forest resources.

Allowable Annual Cut

The harvest rate on crown land is regulated by Government with an AAC set by the provincial Chief Forester. The Ministry of Forests conducts Timber Supply Reviews on a continuing basis to determine harvest levels for each Timber Supply Area and Tree Farm Licence. Various factors can influence either an increase or decrease in the AAC.

In 2003, the Company's AAC was temporarily increased for its interior operation by 15,000 cubic metres per year for a five year period as a result of timber supply reviews. On the central coast, the AAC that was previously reduced on a temporary basis by 131,279 cubic metres pending the outcome of Government land use decisions, is now expected to become a permanent loss. In 2003, the Government of B.C. announced an AAC take-back of 20% as part it's Forestry Revitalization Plan as described under "Timber Supply". This is expected to reduce the AAC by approximately 579,000 cubic metres and is expected to occur during 2005 and 2006.

Logging Operations

Interfor and its logging contractors employ approximately 1,500 people in 35 logging operations, each operating in one or more locations in the coastal region of British Columbia. Its coastal operations extend from Hope, 165 kilometres east of Vancouver, to Prince Rupert, 850 kilometres northwest of Vancouver. Approximately 50% of the logs harvested under Interfor's annual cutting rights are produced by Company-operated conventional and helicopter logging camps and the balance is produced by independent contractors operating under Interfor's direction.

Interfor's coastal logging operations are grouped into five decentralized business units. These separate business units are able to relate more effectively with the specific requirements of the various geographic regions as well as the needs of the surrounding communities including aboriginal groups.

During the past 20 years, Interfor has made important contributions to the development of helicopter logging techniques to harvest trees from locations that are otherwise economically or environmentally inaccessible. Heli-logging can eliminate the need for extensive road building and reduce the ground disturbance in sensitive areas. In 2003, heli-logging by Interfor's subsidiary, Helifor Industries Limited, accounted for approximately 38% of the harvest from Interfor's coastal operations. Helifor also provides contract-logging services to other forest products companies, heavy lift services to other resource companies and significant fire fighting services to the Provinces of B.C. and Alberta.

In order to maximize the value of the log supply in its coastal operations, the Company directs its logs to the most suitable sawmill based on factors that include size, species, and quality. This is accomplished by towing logs in booms or on specially designed self-loading and self-dumping barges. Interfor buys, sells, or trades logs to more closely match its mills' requirements.

Interfor’s harvesting includes the production of pulp logs, which are generally those logs unsuitable for lumber manufacturing. The Company arranges sales of pulp logs in addition to sales of wood chips manufactured by its sawmills to pulp producers in exchange for sawlogs.

In the central interior region of British Columbia, Interfor’s logging operation is located in the vicinity of Adams Lake near the Company’s interior sawmill approximately 80 kilometres north-east of Kamloops. Logging operations in the interior are supervised by Company personnel but are conducted entirely through logging contractors employing approximately 100 people.

During the past five years, Interfor has spent a total of approximately $130 million on roads, bridges, log sorting areas, logging equipment, and timber purchases. These expenditures were made principally in the coastal region to access timber and improve timber harvesting efficiency and flexibility.

Log Sales

In order to obtain the appropriate species, size, and grade of log to best suit market conditions and a particular mill's cutting capability, the Company must sell logs that are in excess of or unsuitable for its manufacturing requirements. The value of log sales for the past five years is shown in the sales table under "Sales and Marketing".

MANUFACTURING

Interfor operates four manufacturing business units consisting of seven sawmills and four remanufacturing facilities. These business units are each headed by a Vice President or senior manager who interfaces with and is guided by corporate policies and guidelines, particularly with respect to log allocation, marketing and sales activities and corporate culture.

Interfor produces a wide range of products from specialty products through to commodity structural lumber. The mills are capable of cutting logs ranging in diameter from 4 inches to 84 inches (10 centimetres to 210 centimetres). Many of the Company's manufacturing facilities have recently been upgraded and modified to improve the matching of timber resources with customers' lumber requirements.

In 2001, Interfor expanded and strengthened its manufacturing base through the acquisition of Primex Forest Products Ltd. This acquisition added two modern coastal sawmills and two remanufacturing operations which, together with Western Whitewood, form the basis of Interfor’s Structural Whitewood Group.

Rated capacity and production of lumber, by mill, for each of the periods specified, is set out in the following table:

Sawmills	Normal Number of Shifts (per day)	Present Rated Capacity (1)	Years ended December 31 2003	2002	2001	2000	1999
			(Millions of Board Feet)				
Cedar							
Hammond Cedar	2	180	145	153	134	146	139
Squamish Lumber (2)	2	100	17	63	72	89	32
Structural Whitewood							
Acorn (3)	3	180	143	182	103	—	—
Field (3)	2	140	101	107	56	—	—
Western Whitewood	1.5	110	33	71	73	83	102
Industrial Whitewood							
MacKenzie Seizai (4) (5)	1.5	50	42	47	37	34	35
Interior							
Adams Lake Lumber (5)	2	200	163	160	133	137	131
Sawmills Sold or Closed							
Fraser Mills (6)		—	—	—	58	143	126
Total		960	644	783	666	632	565

(1) Based on the normal number of shifts per day and 250 operating days.
(2) The sawmill was temporarily curtailed in June 1998 and resumed operations in July 1999. The sawmill was temporarily curtailed again in April 2003 and remains curtailed.
(3) Acorn and Field were acquired as part of the acquisition of Primex Forest Products Ltd. on May 1, 2001.
(4) Volumes include custom-cutting. See "MacKenzie Seizai".
(5) Capacity based on 10 hour shifts.
(6) The sawmill was permanently closed October 2001. The planer and dry kilns remain in operation. See “Remanufacturing”.

Cedar Group

Hammond Cedar

Hammond is a western red cedar manufacturing facility located on the Fraser River at Maple Ridge, British Columbia. The facility consists of a three-line sawmill, dry kilns, and two planer mills. The mill had been completely rebuilt by the previous owner prior to its acquisition in 1991. During 1998 and 2001, five new dry kilns were constructed at a total cost of $8 million. In 2002, the Company completed a $5 million capital project that reduced costs and increased product value by optimizing trimming and improving the mill flow. The Company directs the majority of Hammond's production to North American markets.

Squamish Lumber

The Squamish mill consists of a sawmill and a planer mill located in Squamish, British Columbia at the head of Howe Sound, approximately 75 kilometres north of Vancouver. The mill was acquired by Interfor in 1995. In June 1998, operations were curtailed for 13 months because of difficult market conditions. The mill reopened in July 1999 after operating efficiencies were made through a cooperative process involving the employees, the Community of Squamish and the Government of B.C. During 2001, the Company invested in new optimization systems and in modifications to streamline mill flow. The capital additions improved cost effectiveness on Douglas fir products manufactured for the Japanese market while allowing for a shift in primary business focus to the production of western red cedar products for North American markets. The mill was curtailed again in April 2003 and will remain curtailed until its economic viability improves.

Structural Whitewood Group

Acorn Forest Products

The Acorn operation is located on leased land in Delta, British Columbia. The facility consists of a log dewatering and merchandizing system, a sawmill, a planer mill and dry kilns. The sawmill was completely rebuilt in 1989 and has undergone a number of capital improvements since that time. In 2001, capital projects totaling $13.5 million were completed upgrading the mill's log processing, lumber sorting and optimized trimming capability. To better meet customer needs, the Company also constructed, at a cost of $4.5 million, four dry kilns which utilize advanced vacuum-drying technology. The sawmill specializes in sizes and grades of lumber for use in Japanese traditional housing made primarily from hemlock and Douglas fir logs.

Field Sawmills

The Field operation is a sawmill located on Vancouver Island in Courtenay, British Columbia. In 2001, a $13.8 million capital program was completed to add a log processing facility and an automated lumber sorting system to the sawmill. In 2002, further capital and non-capital improvements resulted in a capacity increase of 30%. The mill uses hemlock and Douglas fir logs to produce structural lumber, primarily for the Japanese traditional housing market. Additional processing of lumber is performed at the Company's Saltair remanufacturing facility located in Chemainus, B.C.

Western Whitewood

Western Whitewood is located on the north arm of the Fraser River in New Westminster, British Columbia. It is a high capacity small-log sawmill designed to manufacture lumber to offshore specifications. In 1994, construction was completed on dry kilns and reprocessing facilities enabling the Company to manufacture more kiln dried value-added products. In 1996, a third kiln was added providing drying capacity for 60% of the mill's production.

Industrial Whitewood Operations

MacKenzie Seizai

Located on the south bank of the Fraser River in Surrey, British Columbia, the MacKenzie operation consists of a log yard and a single line headrig sawmill. The log yard merchandizes large high grade and appearance grade logs in hemlock, balsam, Douglas fir and Sitka spruce. Logs from the log yard are sorted for specified end uses and customers. Certain logs which are best suited for products which cannot be produced efficiently at MacKenzie are custom cut at third party mills under the direction of MacKenzie's management. Logs surplus to current lumber programs are either sold to customers who custom cut the logs at MacKenzie or are sold through the local log market. The majority of lumber products produced at Mackenzie are targeted for further manufacturing into specialty end uses such as doors, windows, mouldings and architectural framing. Approximately 60% of the lumber produced in 2003 was sold in the North American market, primarily in Canada. Reductions in internally produced timber, including the grades and sizes suitable for this mill, resulted in a one-shift operation in most periods since February 1997. As a result, the volume of production was reduced, but the quality and value of production was improved.

Interior Operations

Adams Lake Lumber

Adams Lake Lumber is Interfor's interior sawmill and is located on Adams Lake near Kamloops, British Columbia. Similar to other interior mill operations, the mill manufactures kiln-dried lumber for the United States and Canadian construction markets as well as for offshore markets. Adams Lake Lumber has the capability to cut Douglas fir as well as spruce-pine-fir, western red cedar, and hemlock. In 2000, the Company completed a $4.5 million upgrade to improve the range of products that could be offered to its customers. The upgrade included the ability to produce machine stress rated products, increase the capacity and quality of kiln-drying and other projects which improved product optimization and reduced costs. In 2001, the Company completed a $2.7 million project to install an optimized edger. In 2003, a planer and sorter were installed at a cost of $6.8 million and an additional dry kiln was constructed at a cost of $1.0 million. Capital and non-capital improvements have resulted in a 50% increase in production over a four year period.

REMANUFACTURING

Most of Interfor's sawmills have some capability to process lumber beyond the primary stage. In order to add further value to the Company's lumber products, Interfor has been increasing its involvement in remanufacturing in three ways:

- by selling rough lumber to independent remanufacturers;
- by custom remanufacturing lumber in facilities owned by independent remanufacturers; and
- by upgrading its own remanufacturing capabilities through recent additions including Saltair Timber Products Ltd., CEDARPRIME Inc. and the formation of the Fraser Reman facility.

Cedar Remanufacturing

CEDARPRIME Inc.

CEDARPRIME Inc. is located on leased premises in Sumas, Washington approximately one kilometre south of the Canada/U.S. border. CEDARPRIME Inc. assumed the business previously operated by the Company's McDonald Reman and began its own operations in January 2003. The plant has a moulding line, chop line, planing and finger-jointing equipment as well as access to on-site dry kilns enabling it to produce 20 million board feet of finger-jointed cedar bevelled siding for the U.S. market.

Albion Process Centre

The Albion facility operates on leased lands located 7 kilometres from Hammond, B.C. The plant processes high value finished siding and decking products. The facility includes a moulder, a resaw, five chop-saws and sorting equipment which enable the plant to process 12 million board feet of kiln-dried products per year.

Structural Whitewood Remanufacturing

Fraser Reman

The Fraser Mills sawmill, located on the north bank of the Fraser River at Coquitlam, B.C., was permanently closed in October 2001. In 2001, the Fraser Reman operation was established on the Fraser Mills site and the construction of five new steam kilns was completed at a cost of $4.9 million. These kilns together with the existing kilns and the planermill continue to operate and process lumber for Interfor's other primary mills as well as for external customers on a contract processing basis.

Saltair Timber Products Ltd.

Saltair Timber Products Ltd. is located in Chemainus, British Columbia. Its facilities include dry kilns and other processing equipment for adding value to the lumber produced at Field Sawmills. The plant has an annual capacity of 40 million board feet of kiln dried lumber. Primex previously owned 49% of Saltair but increased its ownership to 100% in June 2001. In 2002, improvements in the operations of the dry kilns enabled the plant to double its kiln throughput.

Specialty Products Division

Specialty Products operated on a very limited basis in 2003. Its permanent closure was announced in December 2003.

SALES, MARKETING AND DISTRIBUTION

The difficult terrain, higher road and other capital costs and higher stumpage charges result in higher log costs for coastal mills compared to interior mills. In addition, the facilities of coastal mills are primarily directed to the handling of large logs which result in higher sawmilling costs. However, British Columbia coastal softwood timber is characterized by large, high quality logs in a variety of species which yield a higher percentage of clear and appearance grade lumber than do interior logs. The prices obtained for the premium grades of coast lumber compensate, in part, for higher logging and sawmilling costs. On average, coastal mills have average selling prices of more than $300 per thousand board feet higher than interior mills. Accordingly, a continuing priority for Interfor is to develop products and markets that more fully realize the potential for higher grades, special dimensions and value added items. As part of this initiative, Interfor has increased its kiln drying capacity in the interior region to 100% of its lumber production and to 35% in the coastal region.

Lumber is similar to many other commodities in that demand is cyclical. Factors such as interest rates, exchange rates, freight rates, government tariff and import policies, and demand for housing affect the demand for lumber. In recent years, the residential repair and remodelling market in North America has become almost as large a lumber consumer as new housing and has lessened the impact of fluctuations in new housing starts. In order to further lessen the impact of rapid cyclical changes in any one market, Interfor maintains the policy of worldwide market and product diversification. Each of the mills has a particular customer and product base in various countries which provides Interfor with a diversified sales profile resulting in less dependency upon US markets than most other major Canadian producers.

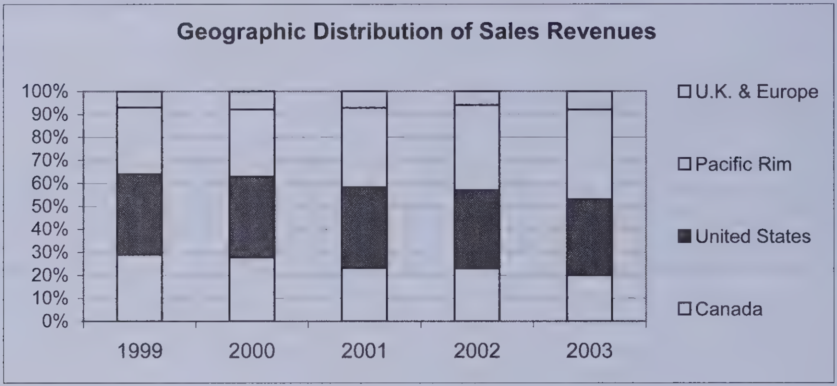
Lumber Sales and Marketing activities are combined into Western Red Cedar, Structural Whitewood, Industrial (appearance grade) Whitewood and Interior Groups. Interfor's Tokyo based subsidiary, Interfor Japan Ltd., has developed niche markets and has increased sales directly to end users. While the major market for Interfor's cedar lumber continues to be North America, gains have been made in diversifying into offshore markets in Europe, Japan, Asia and Australia.

Interfor uses various modes of surface transportation to deliver its lumber products. Interfor is the managing partner of Seaboard Shipping and arranges substantially all of the Company's offshore transportation through them. Shipments of lumber within North America are made by truck and rail. Chips and logs are normally delivered by tug and barge or by truck.

The following table shows Interfor's lumber sales by geographic area and total sales by product line for the past five years:

	Years ended December 31				
	2003	2002	2001	2000	1999
			(thousands of dollars)		
Lumber					
— Domestic	$ 81,675	$127,357	$112,755	$137,333	$122,583
— U.S.A	137,655	189,123	171,913	173,556	147,105
— Other export	203,790	242,830	207,398	186,276	158,802
	423,120	559,310	492,066	497,165	428,490
Offshore transportation and handling	27,338	31,453	20,078	20,524	17,648
Logs	90,822	137,602	135,836	168,532	168,693
Wood chips and other by-products	28,499	31,041	30,160	39,363	24,214
Contract services and other	33,882	24,734	25,954	20,033	22,015
Total sales	$603,661	$784,140	$704,094	$745,617	$661,060

The following graph shows the percentage of Interfor's lumber sales revenue to its major markets in the past five years.



Wood Chip and Sawmill Residuals Sales

At normal capacity Interfor produces approximately 600,000 volumetric units of wood chips per year in its sawmill operations. In 2003, operating the sawmills below capacity reduced chip shipments to approximately 441,000 volumetric units for the year. Essentially all of the Company's wood chips are sold under contracts to pulp producers in B.C. with terms varying from 1 to 25 years, with some contracts perpetually renewable by the pulp producer. Most of Interfor's wood chips are sold at prices related to current Northern Bleached Softwood Kraft (NBSK) pulp prices, while the balance is sold at current prices.

Interfor supplies chips and sawmill residuals as well as pulp logs to assignees of the previous owners of the Hammond and Fraser Mills operations under one of its long-term agreements. The agreement provides for specified target volumes as well as minimum and maximum volumes of pulp fibre to be supplied by Interfor. These volumes are adjustable as Interfor's harvest level changes in the future. Pulp logs and sawmill residuals are sold at market prices, while wood chips are sold at a formula price tied to NBSK pulp prices.

CAPITAL EXPENDITURES

The Company made acquisitions and capital expenditures on sawmill and logging operations and timber holdings as shown in the following table:

	Years ended December 31,				
	2003	2002	2001	2000	1999
	(thousands of dollars)				
Acquisitions					
Land, buildings, equipment					
— Manufacturing	—	—	$85,909	—	—
— Forestry and logging	—	—	—	—	—
Logging roads and timber	—	—	—	—	—
	—	—	$85,909	—	—
Other capital expenditures					
Land, buildings, equipment					
— Manufacturing and other	$21,940	$14,801	$21,386	$15,041	$4,493
— Forestry and logging	1,335	2,266	13	7,338	2,147
Logging roads and timber	16,625	24,028	19,866	30,253	24,792
	39,900	41,095	41,265	52,632	31,432
Total	**$39,900**	**$41,095**	**$127,174**	**$52,632**	**$31,432**

The capital expenditures of the Company during the five years ended December 31, 2003 were financed through internally generated funds, through the Company's bank lines and through a share issue in 2001.

HUMAN RESOURCES

Interfor employs on average approximately 3,000 people including approximately 1,000 people through logging contractors operating under its direction. Interfor is a member of Forest Industrial Relations, an association which represents most of the forestry companies in coastal British Columbia in their negotiations with IWA-Canada ("IWA"). The IWA is the certified bargaining agent for approximately 1,950 people engaged in Interfor's logging and manufacturing operations in the coastal region. The previous labour agreement with the IWA expired on June 14, 2003 and an arbitration process has been legislated by the Government of B.C. to establish a new agreement.

During 2003, there were approximately 180 shifts lost due to labour disputes in Interfor's sawmill operations following the expiry of the labour contract. This represents approximately 8% of the planned shifts for the year. On average over the previous five years, approximately two percent of the total planned shifts of Interfor's sawmill operations were lost due to labour disputes.

THE ENVIRONMENT

In late 1994, the Environment Committee of the Board of Directors was formed and in early 1995, an Environmental Policy was approved by the Board. During 1999, the role of the Environment Committee was re-evaluated and reaffirmed. At that time, the Committee also assumed additional responsibility for health and safety issues. A new Environment Policy was approved by the Board on July 21, 1999, and reconfirmed on July 17, 2001.

Upon the formation of the Environment Committee in 1994, the Board directed the management of the Company to implement an environmental compliance program and to ensure that there are regular, documented reports to verify its effectiveness. Interfor ensures that external environmental audits are performed regularly in both the woodlands and manufacturing operations of the Company.

Interfor was the recipient of the Millennium Business award for Environmental Achievement presented by the United Nations Environmental Programme and the International Chamber of Commerce in May 2000.

RESEARCH AND DEVELOPMENT

The Company contributes to and participates in industry research organizations that have made numerous technical developments beneficial to the Company in areas such as sawing technology, drying techniques, and anti-sapstain applications. Interfor also is committed to applied research and development in the areas of health and safety, forest management and product and market development. Interfor also conducts product and market research on its own and is currently engaged in trials to produce several engineered wood products in Asia.

SHARE CAPITAL

The authorized share capital of the Company consists of 100,000,000 class “A” Subordinate Voting shares without par value (“Subordinate Voting Shares”), 1,700,000 class “B” Multiple Voting shares without par value (“Multiple Voting Shares”) and 5,000,000 Preference shares without par value issuable in series with such special rights and restrictions as the Directors of the Company may determine before issue thereof. The Subordinate Voting Shares and Multiple Voting Shares are referred to as "Equity Shares".

Subordinate Voting Shares

The holders of Subordinate Voting Shares are entitled to non-cumulative preferential dividends of 13 1/3 cents per annum for each share in priority to any dividends paid on the Multiple Voting Shares and to further participate, share for share with the Multiple Voting Shares, in any dividends paid on the Subordinate Voting Shares and Multiple Voting Shares for any fiscal year after 13 1/3 cents per share has been paid or set aside for payment on the Subordinate Voting Shares. The holders of Subordinate Voting Shares are entitled to one vote for each share and the holders of the Subordinate Voting Shares are entitled, as a class, to elect one member of the Board of Directors and if there are no Multiple Voting Shares outstanding, are entitled to elect the entire Board of Directors except in certain circumstances where the holders of Preference shares are entitled to elect two Directors.

The provisions relating to the Subordinate Voting Shares may not be varied unless sanctioned by a special resolution of the holders of the Subordinate Voting Shares and the Multiple Voting Shares voting together and by separate resolutions of the respective holders of the Subordinate Voting Shares and the Multiple Voting Shares, the

special resolution and separate resolutions in each case requiring a majority of three-fourths of the votes cast.

In the event of liquidation, dissolution or winding-up of the Company or any other distribution of its assets, holders of Subordinate Voting Shares are entitled to declared and unpaid dividends prior to the holders of the Multiple Voting Shares and thereafter to participate, share for share, with the Multiple Voting Shares, subject to all rights of the holders of Preference shares.

Multiple Voting Shares

The holders of Multiple Voting Shares are entitled to participate, share for share, with the Subordinate Voting Shares, in any dividends paid for any fiscal year after 13 1/3 cents has been provided for payment on the Subordinate Voting Shares. The holders of Multiple Voting Shares are entitled to ten votes for each share held and the holders of Multiple Voting Shares are entitled, as a class, to elect all members of the Board of Directors except one member to be elected by the holders of the Subordinate Voting Shares and, in certain circumstances, two directors to be elected by the holders of Preference shares.

In the event of liquidation, dissolution, or winding-up of the Company or any distribution of its assets, holders of Multiple Voting Shares are entitled after payment of any declared and unpaid dividends on the Subordinate Voting Shares to participate, share for share, with the Subordinate Voting Shares, subject to all rights of the holders of Preference shares.

Any holder of Multiple Voting Shares is entitled at any time to exchange his Multiple Voting Shares for Subordinate Voting Shares on a share for share basis without adjustment for any unpaid dividends.

The provisions relating to the Multiple Voting Shares may not be varied unless sanctioned by a special resolution of the holders of the Subordinate Voting Shares and the Multiple Voting Shares voting together and by separate resolutions of the respective holders of the Subordinate Voting Shares and the Multiple Voting Shares, the special resolution and separate resolutions in each case requiring a majority of three-fourths of the votes cast.

In the event of any subdivision, consolidation, or conversion of either Subordinate Voting Shares or Multiple Voting Shares, an appropriate adjustment is to be made in the rights and conditions attaching to the Subordinate Voting Shares and the Multiple Voting Shares to preserve the benefits conferred on the holders of each class.

Rights on Take-Over Bids and Conversion of Multiple Voting Shares

Any transfer of a Multiple Voting Share:

(a) by any of W.L. Sauder, members of his immediate family, their descendants and holding companies (collectively the "Controlling Shareholder Group") to any person other than another member of the Controlling Shareholder Group or a person (the "Qualified Purchaser") who is acquiring a majority of the outstanding Multiple Voting Shares and who makes an offer to purchase all outstanding Subordinate Voting Shares, Convertible Preference Shares, and Multiple Voting Shares at an equivalent price; or

(b) by a Qualified Purchaser to any person other than another Qualified Purchaser,

will result in the automatic conversion of the share into a Subordinate Voting Share.

The Multiple Voting Shares will be automatically converted into Subordinate Voting Shares if:

(a) the Controlling Shareholder Group or a Qualified Purchaser ceases to beneficially own more than 50% of the issued and outstanding Multiple Voting Shares; or

(b) the Controlling Shareholder Group or a Qualified Purchaser ceases to beneficially own Equity Shares carrying at least 9.2 million votes, subject to adjustments upon: (i) the subdivision, consolidation, or reclassification of any outstanding Equity Shares, or (ii) the issue of Equity Shares by way of a stock dividend other than an ordinary course stock dividend.

Preference Shares

The Preference shares of each series rank on a parity with the Preference shares of every other series, and are entitled to preference over the Subordinate Voting Shares and the Multiple Voting Shares and over any other shares ranking junior to the Preference shares, with respect to payment of dividends and the distribution of assets of the Company in the event of liquidation, dissolution, or winding-up of the Company.

STOCK EXCHANGE LISTING

The Subordinate Voting Shares are listed on the Toronto Stock Exchange under the symbol IFP.A.

DIVIDENDS

The Company previously had a policy, subject to availability of earnings, of paying stock dividends in order to maintain its Equity Shares as eligible investments for pension plans and various other regulated investments as required under former legislation. This policy was discontinued following the change in eligibility requirements. The last stock dividend was issued in May 1991. Under its credit facilities, the Company may pay cash dividends and certain other payments provided that it meets its banking covenants. However, the Company has no plans to pay dividends while it pursues high pay-back capital projects.

MANAGEMENT DISCUSSION AND ANALYSIS and SELECTED FINANCIAL INFORMATION

For selected financial information, trend analysis and other analysis, including a discussion of risk factors, please refer to Management Discussion and Analysis on page 11 for the year ended December 31, 2003, which is incorporated here by reference.

DIRECTORS AND EXECUTIVE OFFICERS

As of March 7, 2004, the executive officers and directors of the Company (20 persons) beneficially owned or exercised control over 3.3% of the Subordinate Voting Shares and 99.6% of the Multiple Voting Shares.

The term of office for each director expires on the date of the next annual general meeting on April 28, 2004.

Directors	Principal Occupations in the Past Five Years	Director Since	Municipality of Residence
LAWRENCE I. BELL (a)(b)(c)	Chairman and previously Chairman & C.E.O. of B.C. Hydro and Power Authority (Electricity generation and distribution); previously President and Chief Executive Officer of Shato Holding Ltd. (Food processing and services; real estate management and development)	Apr. 29, 1998	West Vancouver, B.C.
DUNCAN K. DAVIES (e)	President and Chief Executive Officer of the Company; previously President and Chief Operating Officer, Executive Vice President and Chief Operating Officer of the Company	Nov. 24, 1998	Vancouver, B.C.
ROBERT E. KADLEC (b)(d)	Chairman & C.E.O. of Bentley Capital Corp. (Venture capital)	Oct. 18, 1994	West Vancouver, B.C.
HAROLD C. KALKE (a)(b)(c)	President of Kalico Developments Ltd. (Real estate development and management)	July 18, 2000	West Vancouver, BC
CLAUDE C. LAVAL, III (a)(d)	Chairman of Claude Laval Corporation (Manufacturer of filtration equipment)	Apr. 28, 1994	Fresno, Calif., U.S.A.

Directors	Principal Occupations in the Past Five Years	Director Since	Municipality of Residence
RICHARD N. MCKERRACHER (d)	Senior Vice President and previously Vice President, Finance of Sauder Industries Limited (Manufacturers and distributors of building products)	Apr. 29, 1998	North Vancouver, B.C.
GEORGE L. MALPASS (e)	Retired, Vice Chairman of the Company; Previously President and Chief Executive Officer of Primex Forest Products Ltd. (Forest products)	May 1, 2001	Vancouver, B.C.
JOHN A. MILROY (a)(b)(d)	Business Consultant	Mar. 23, 1978	Vancouver, B.C.
E. LAWRENCE SAUDER (c)(e)	President of Sauder Industries Limited (Manufacturers and distributors of building products)	Apr. 18, 1984	Vancouver, B.C.
WILLIAM L. SAUDER (c)(e)	Chairman of the Company; previously Chairman and Chief Executive Officer of the Company	Jul. 27, 1977	Vancouver, B.C.
JOSEPH SEGAL (c)	President of Kingswood Capital Corporation (Venture capital)	Feb. 2, 1987	Vancouver, B.C.
JOHN P. SULLIVAN (d)	Retired; previously Vice President of the Company; Previously Vice President Corporate Development of Primex Forest Products Ltd. (Forest products)	May 1, 2001	Vancouver, B.C.

(a) Member of the Audit Committee
(b) Member of the Corporate Governance Committee
(c) Member of the Management Resources and Compensation Committee
(d) Member of the Environment and Safety Committee
(e) Member of the Executive Committee

Executive Officers	Principal Occupations in the Past Five Years	Municipality of Residence
WILLIAM L. SAUDER	Chairman of the Company; previously Chairman and Chief Executive Officer of the Company	Vancouver, B.C.
DUNCAN K. DAVIES	President and Chief Executive Officer of the Company; previously President and Chief Operating Officer; Executive Vice President and Chief Operating Officer of the Company	Vancouver, B.C.
HUGH J. SUTCLIFFE	Executive Vice President and Chief Operating Officer; previously Senior Vice President, Operations; Senior Vice President, Coast Operations and Vice President, Coast Forestry and Logging of the Company	Vancouver, BC
JOHN A. HORNING	Senior Vice President and Chief Financial Officer; previously Vice President Finance and Corporate Development; Vice President of the Company, Business Consultant to the Company	West Vancouver, B.C.

JAMES A. BELSHEIM	Vice President, Structural Whitewood; previously Vice President, Interior Operations and General Manager of the Company's Adams Lake and Squamish operations	West Vancouver, B.C.
JACK E. DRAPER	Vice President, Cedar; previously General Manager, Cedar	Surrey, B.C.
GERALD J. FRIESEN	Vice President and Corporate Secretary; previously Corporate Secretary of the Company	Coquitlam, B.C.
OTTO F. SCHULTE	Vice President, Coastal Woodlands; previously General Manager, Campbell River Operations of the Company	Black Creek, B.C.
RICHARD J. SLACO	Vice President and Chief Forester; previously Chief Forester of the Company	Delta, B.C.

ADDITIONAL INFORMATION

The Company will provide to any person, upon request to the Corporate Secretary of the Company:

(a) when securities of the Company are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of securities of the Company,

(i) one copy of this Annual Information Form together with one copy of any document, or the pertinent pages from any document, incorporated by reference in this Annual Information Form;

(ii) one copy of the audited consolidated financial statements of the Company for the years ended December 31, 2003 and 2002 together with the accompanying report of the auditors thereon, and one copy of any interim financial statements of the Company filed subsequent to such financial statements;

(iii) one copy of the Information Circular of the Company dated as of March 7, 2004; and

(iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus other than those referred to above; or

(b) at any other time, one copy of any of the documents referred to in (a), (i), (ii) and (iii) above, provided that the Company may require the payment of a reasonable charge if the request is made by a person who is not a securityholder of the Company.

Additional information relating to the Company, including corporate governance practices, directors and officers remuneration, principal holders of the Company's securities and options to purchase securities, is contained in the Information Circular of the Company dated as of March 7, 2004 and additional financial information relating to the Company is contained in the audited consolidated financial statements of the Company for the years ended December 31, 2003 and 2002.

INTERFOR

International Forest Products Limited

ENVIRONMENT AND SAFETY REPORT FOR 2003

ENVIRONMENT

ENVIRONMENT POLICY

International Forest Products Limited is committed to responsible stewardship of the environment.

- We will minimize environmental impact, prevent pollution and strive for continuous improvement of our environmental performance.
- We will operate in compliance with all applicable laws pertaining to the environment.
- We will regularly review our practices and procedures to monitor and report on environmental performance.
- We will provide training for employees and contractors in environmentally responsible work practices.
- We will manage our forest resources in a sustainable manner that is environmentally appropriate, socially beneficial and economically viable.
- We will promote the use of our wood products as a good choice for the environment.

Re-endorsed by the Board of Directors on July 17, 2001

WOODLANDS

Interfor is at the forefront of environmental certification work in British Columbia.

Certified Sustainable - All of Interfor's forest operations have been independently certified to internationally recognized standards.

ISO 14001 - **International Organization for Standardization**
Coastal Woodlands certified December 1999
Interior Woodlands certified June 2000
Coastal Woodlands re-certified October 2002
Interior Woodlands re-certified July 2003

ISO 14001 REGISTERED KPMG

SFI® - **Sustainable Forestry Initiative®**
Coastal Woodlands certified January 2001
Interior Woodlands certified June 2001
Coastal Woodlands re-certified January 2004

CERTIFIED SFI PARTICIPANT KPMG

The Company maintains an Environmental Management System including a sustainable forest management program that is monitored and reviewed for continual improvement. KPMG Performance Registrar Inc. conducts regular independent audits to assess and verify performance. The ISO 14001 certificate is valid for 3 years from date of issue. The SFI certificate is valid 3 years from date of initial issue and every 5 years thereafter. In 2003, the company successfully completed an ISO 14001 re-certification audit of its interior woodlands operations and an SFI re-certification audit of its coastal woodlands operations.

In January 2001, Interfor became the first BC forest company operating on publicly owned land to receive environmental certification to the American Forest and Paper Association's SFI standard.

Sustainable Forestry is defined as: management to maintain and enhance the long-term health of forest ecosystems while providing ecological, economic, social, and cultural opportunities for the benefit of present and future generations, (1992 Canadian Council of Forest Ministers). Interfor has developed a Sustainable Forest Management Plan (SFMP) that is certified to both the ISO 14001 and the SFI program standards. Interfor's forestry activities are guided by the following key objectives contained in our SFMP:

- Employees operate in a safe and environmentally responsible manner.
- Forest plans are developed in consultation with the public.
- Activities incorporate conservation management for water, soil, wildlife and other ecological values.
- Forest landscapes provide for biodiversity and old growth values.
- Harvest rates ensure long-term sustainability.
- Viable operations benefit society.
- Activities respect all laws and tenure responsibilities.
- Continually improve the practice of forest management.
- Promote sustainable forestry practices on public and private lands.

Interfor's SFMP contains 41 indictors, for monitoring and measuring implementation of our plans and practices with respect to the SFMP objectives. Interfor produces an annual progress report for the SFI program. In addition the company has developed a sustainability index, which helps to describe the level of achievement for social, economic and environmental indicators and targets. A Sustainability Report will be produced in 2004 to help communicate our SFMP goals and achievements to the public.

A team of qualified forest professionals and a dedicated workforce manages Interfor's sustainable forest management plans and practices. The Company is a leader in the development of innovative and environmentally friendly harvesting practices with a proven ability to meet and exceed the strict legal requirements governing forestry on public land in British Columbia. For example, current guidelines allow for 7% site disturbance - permanent access structures (roads and log landing areas). Interfor utilizes helicopter logging on greater than 25% of our harvest area, as a result we can minimize the amount of productive forestland converted to permanent roads. In 2003, roads and landings accounted for only 4.4% of the area harvested. Following harvest, silvicultural regulations allow 3 to 7 years for harvested areas to be restocked by planted or natural regeneration methods. Interfor's foresters manage reforestation goals by planting the majority of the harvested areas within 2 years after harvest. In 2003 the company planted 4.6 million trees with an average planting density of 1,100 trees per hectare.

Interfor manages forests for timber production while integrating conservation values to ensure protection of water quality, fisheries, wildlife and biodiversity. Harvesting plans are based on ecological conditions and approved by professional foresters and public agencies. In 2003 the company's variable retention logging methods were applied to approximately 50% of its harvesting area. Variable retention methods are designed to address visual, wildlife and biodiversity needs. The company's forest development plans also provide for wildlife tree patches that are retained after harvest for habitat requirements.

Interfor continues to be engaged in a variety of environmental initiatives related to its forestry practices. During 2003 the Company administered numerous environmental projects involving wildlife studies, ecosystem research and the publication of an Endangered Species Guidebook for the Coastal Region.

The Company has retained two scientific advisors, Dr. Hamish Kimmins – Coast, Dr. John Innes – Interior, to provide assistance in the development of the sustainable forestry program. In addition, the Company has formed a public stakeholder group that represents different communities on the coast to assist in the audit process and to provide public feedback on performance.

MANUFACTURING

Interfor maintains an Environmental Management System (EMS) for all of its manufacturing facilities. Each business unit is responsible for compliance and ensuring the EMS is functioning well.

The Company retains the services of environmental consultants to help administer and maintain the performance of its EMS.

The services provided include:

- Environmental reviews and audits
- Environmental and stormwater monitoring
- Environmental engineering design
- Toxicity and laboratory studies
- Contaminated site investigation and remediation
- Risk assessment and management
- Government liaison where required

Envirochem Services Inc. conducts environmental audits at the mill sites during the course of the year. Envirochem uses a rating system (1-5) to score environmental performance of various indicators at each functioning mill site. A scoring of 1 represents significant risk, whereas, the top score of 5 indicates good management practices. The overall scores for each mill are listed in the table below.

Audit Score (Scale of 1 to 5)

	2003	2002	2001	2000	1999
Adams Lake	4.7	4.7	4.6	4.5	4.4
Albion	5.0	4.9	4.8	4.8	4.7
Fraser Mills-Reman	4.5	4.5	4.5	4.4	4.4
Hammond Cedar	4.7	4.6	4.5	4.4	4.4
Cedar Prime	4.6	—	—	—	—
McDonald Cedar	N/A*	4.9	4.8	4.7	4.3
MacKenzie Seizai	4.6	4.6	4.6	4.5	4.4
Squamish	4.6*	4.6	4.4	4.3	N/A*
Western Whitewood	4.7	4.7	4.7	4.6	4.5
Westminster Wood	N/A*	N/A*	N/A*	4.5	4.4
Acorn	4.5	4.5	4.4	4.4	—
Field	4.4	4.3	4.3	4.1	—
Saltair Timber	4.1	3.7	3.3	3.0	—
Specialty Products	4.6*	4.7*	4.6	4.6	—
Average	**4.6**	**4.6**	**4.5**	**4.5**	**4.4**

*Facilities inactive for an extended period or have had limited operation during the year.
Fraser sawmill was permanently closed October 2001. The planer and dry kilns remain in operation.
McDonald Cedar was permanently closed in October 2002.
Westminster Wood was sold in January 2003.

An overall score of 4.6 in 2003 for all the mill sites indicates a very high rating of environmental performance.

In addition to audit scores, the following indicators of environmental management are addressed:

Surface Run-off Measurements
Sampling for antisapstain chemicals and bioassay from surface run-off water.

Environmental Training
On-site spill training and refresher courses for transportation of dangerous goods.

Regulatory Compliance
Monitoring of spill incidents and other environmental regulations.

High Priority Recommendations

A listing of priority items to guide continual improvement of environmental performance.

Interfor has obtained the following environmental certification and chain of custody achievements for manufacturing.

ISO 14001 - International Organization for Standardization

Squamish Lumber Division
Adams Lake Lumber Division
Hammond Cedar Division

The registrations to ISO14001 for Environmental Management Systems were obtained from KPMG Performance Registrar Inc.

Chain-of-Custody - Certification

FSC Standards
Generic Certification Standards

All of Interfor's manufacturing facilities were approved in 2003 by the AF&PA Office of Label Use and Licensing to use the SFI℠ registered on-product label. Label use requirements include having an independent 3rd party verified wood procurement system to track certified log consumption at each mill. KPMG Performance Registrar Inc. completed the audit to satisfy this requirement.

Interfor's manufacturing facilities were also independently certified by Scientific Certification Systems (SCS) to meet the chain of custody requirements for the Forest Stewardship Council (FSC). In addition, Interfor's manufacturing facilities were certified to a generic chain of custody procedure by SCS, which allows the company to track certified logs from other forest management certification systems. All the certification requirements are assessed annually for compliance.

HEALTH AND SAFETY

HEALTH AND SAFETY POLICY

Health and Safety is the uncompromised right and responsibility of all employees.

- We will monitor and report regularly on our Health and Safety performance.
- We will integrate Health and Safety into our business with the knowledge that all accidents are preventable.
- We will hold all levels of management accountable for providing a safe work environment and enforcing safe work practices, including timely follow-up of safety incidents.
- We will train all employees to identify hazards and to protect themselves and fellow workers.
- We will hold all employees and contractors working for Interfor accountable for following safe work practices and reporting unsafe acts and conditions.
- We will use audits to measure and improve our Health and Safety performance.
- We will actively involve our employees in effective Safety programs.
- We will operate in compliance with Health and Safety Regulations

International Forest Products Limited is committed to the health, safety, and well being of all employees.

Re-endorsed by the Board of Directors on July 17, 2001

SAFETY PERFORMANCE

Interfor has come a long way in the area of safety performance since 1998, when the Company determined that its health and safety record was in need of significant improvement. Since then, Interfor's Medical Incident Rate (MIR) - the measure by which industry performance is measured – has been reduced by approximately 80%. Last year, the Coastal Woodlands group moved closer toward its overall target, recording a MIR of 5.2 and measurably reducing serious incidents in company operations. Interfor's Manufacturing group also made significant progress achieving a MIR of 4.9, an improvement of 8% over 2002. Both Coastal Woodlands and Manufacturing were among the top safety performers in their respective sectors, as reported by the Forest Industry Advisory Service (FIAS).

Regrettably, two fatalities occurred at Interfor operations in 2003. The first fatality occurred in a contractor road building operation working for our Coastal Woodlands group, the second fatality was an employee of a contract trucking company who was killed during the loading of his truck at our Field Sawmill Operations.

The target for both Coastal Woodlands and Manufacturing was to reduce the 2002 M.I.R. by approximately one-quarter for 2003. Results for the period 1997 to 2003 are as follows:

Medical Incident Rates	**Coastal Woodlands**	**Manufacturing**	**Total Interfor**
1997	35.8	16.4	**22.8**
1998	32.9	17.9	**23.4**
1999	14.2	10.2	**11.7**
2000	13.2	5.9	**8.6**
2001	6.2	7.8	**7.2**
2002	6.0	5.3	**5.5**
2003 – actual	**5.2**	**4.9**	**5.0**
-- target	**Less than 4.0**	**Less than 4.0**	**Less than 4.0**

After a formal review of the Company's entire safety program in 2002, the Company formed Safety Task Groups in its woodlands and manufacturing groups. The Coastal Woodlands Safety Task Group was formed in early 2003. The purpose of this group is to provide direction and substance to enable the *Managing For Outstanding Safety* Project to succeed. The key activities of the Group in 2003 included:

- Developed rapid and substantial communication on safety including Incident Notices, Safety Bulletins and Safety Alerts.
- Conducted a safety survey.
- Developed safety roles and responsibilities for all areas.
- Fully engaged phase contractors in the project.
- Formed an articulating rock truck sub-committee
- Developed confined space entry training.
- Began process of ensuring full phase contractors meet or exceed our requirements.

The Coastal Woodlands Safety Task Group held various safety values workshops with employees and developed the following safety values and beliefs:

- Safety has overriding priority.
- All injuries are preventable.
- We identify, assess and control risk.
- Each of us is accountable for the prevention of injuries in our sphere of influence.
- Safety excellence generates business success.
- Participation develops ownership in safety.
- We take pride in working safely.

The Manufacturing Safety Task Group was formed in early 2003 to bring together leaders from each manufacturing division to form a steering committee that will take safety performance to a level of consistent excellence. Specifically, the Group was established to lead a cultural change in manufacturing that ensures a safety first approach and achieves exceptional results.

The key activities of the Group in 2003 included:

- Review of Interfor historical safety data and established priority focus areas.
- Launched the new safety program using the 'Trident' approach. This process includes defining the program, which then develops standards, supervisors' 'Tool and Time' program and risk assessment.
- Developed a consistent interdivisional communication tool, 'Safety Hazard Bulletin' and a procedure that widely distributes pertinent safety information on a priority basis.
- Completed 'Best Practices' audits on Fall Protection and Mobile Equipment Safety at four divisions including Adams Lake, Acorn, Hammond and CedarPrime.
- Engaged BC Research to complete a supervisors' 'Tools and Time' interview process to identify gaps in supervisory resources, training and regulatory understanding. Initial data has been compiled and used to identify priorities for 2004.
- Purchased Automated External Defibrillator units for Field, Hammond and Adams Lake.

The Company will continue to build on its safety performance in 2004 and has set the following targets:

	Medical Incident Rates		
	Coastal Woodlands	**Manufacturing**	**Total Interfor**
2004- target	Less than 3.0	Less than 3.0	Less than 3.0

GOING FORWARD

During 2004, Interfor intends to:

- Continue to develop the *Managing For Outstanding Safety* Project throughout the Company.
- Continue working towards eliminating serious incidents and fatalities.
- Focus on Line Management leadership responsibilities as key to achieving Outstanding Safety.
- Implement recurrent training programs.
- Effect continuous improvement in safety.
- Continue to apply safety as a prerequisite for employment.

These efforts are designed to make all Interfor operations safe and healthy places to work so our employees can return home safely to their families.

GLOSSARY

“**Allowable Annual cut (AAC)**” The average annual volume of timber which the holder of a licence from the Province of British Columbia may harvest on Crown land under the licence in a five-year control period.

“**Cash flow from operations**” Cash generated from operations before considering changes in operating working capital.

“**Clear fibre**” Refers to knot and defect-free fibre found in higher-grade sawlogs; in lumber from, this fibre commands a premium price.

“**Custom cutting**” An arrangement under which a mill contracts to cut logs owned by a customer into products of specifications defined by the customer.

“**EBITDA**” Earnings before interest, income taxes, depletion, amortization, restructuring costs and capital asset write-downs.

“**Forest Licence**” Replaceable, volume-based timber cutting rights for a specific volume of Crown timber within a Timber Supply area.

“**Hectare**” A metric unit of area measurement, equal to 2.47 acres.

“**m^3**” A measure of one cubic metre of solid wood, British Columbia metric scale, as determined under the Forest Act, equal to 35.3 cubic feet of solid wood.

“**Mfbm**” One thousand foot board measure equal to one thousand square feet of lumber, one inch thick.

“**Pre-tax return on total assets**” Earnings (loss) before taxes divided by closing total assets.

“**Return on average invested capital**” Net earnings (loss) plus after tax interest cost divided by the average of opening and closing invested capital (bank indebtedness plus long-tern debt plus shareholders’ equity).

“**Return on average shareholders’ equity**” Net earnings (loss) divided by the average of opening and closing shareholders’ equity.

“**Silviculture**” The art and science of controlling the establishment, growth, composition, health and quality of forests.

“**Stumpage**” A charge assessed by the provincial government on all Crown timber harvested.

“**Sustained yield (sustainable log supply)**” The yield that a forest area can produce on an ongoing basis without impairment of the long-term productivity of the land.

“**Timber Licence**” Non-replaceable, area based, Crown timber cutting rights.

“**Tree Farm Licence**” A renewable 25-year licence to manage forest area to yield an annual harvest on a sustainable basis.

“**Value-added product**” A commodity or other product that has been further processed to increase financial value.

“**Volumetric unit**” A unit of measurement for wood chips and other sawmill by-products, being equal to 200 cubic feet.

“**Whitewood**” Includes the Coastal species Hemlock, Balsam Fir, Douglas Fir and Spruce; the term whitewood is used on British Columbia Coast to differentiate the above species from Red Cedar and Yellow Cedar.

HEAD OFFICE AND REGISTERED OFFICE

P.O. Box 49114, Bentall Centre
Suite 3500, Bentall Tower Four
1055 Dunsmuir Street
Vancouver, BC V7X 1H7
(604) 689-6800

OFFICERS

W.L. Sauder
Chairman

G.L. Malpass
Vice Chairman

D.K. Davies
President and Chief Executive Officer

H.J. Sutcliffe
Executive Vice President and
Chief Operating Officer

J.A. Horning
Senior Vice President and
Chief Financial Officer

J.A. Belsheim
Vice President, Structural Whitewood

J.E. Draper
Vice President, Cedar

O.F. Schulte
Vice President, Coastal Woodlands

R.J. Slaco
Vice President and Chief Forester

G.J. Friesen
Vice President and Corporate Secretary

L.D. Cocke
Corporate Controller

S.D. Williams
Corporate Treasurer

AUDITORS

KPMG LLP Vancouver, BC

TRANSFER AGENT

Computer Share Trust Company of Canada
Vancouver, BC and Toronto, ON

STOCK EXCHANGE

Class "A" shares listed on
The Toronto Stock Exchange as IFP.A

DIRECTORS

L.I. Bell
West Vancouver, BC

D.K. Davies
Vancouver, BC

R.E. Kadlec
West Vancouver, BC

H.C. Kalke
West Vancouver, BC

C.C. Laval III
Fresno, California, USA

R.N. McKerracher
North Vancouver, BC

G.L. Malpass
Vancouver, BC

J.A. Milroy
Vancouver, BC

E.L. Sauder
Vancouver, BC

W.L. Sauder
Vancouver, BC

J. Segal
Vancouver, BC

J.P. Sullivan
Vancouver, BC

COASTAL WOODLANDS

311 – 1180 Ironwood Road
Campbell River, BC V9W 5P7
(250) 286-5000

WOODLANDS OFFICES

Campbell River: (250) 286-1881
Hope: (604) 869-7111
Port Hardy: (250) 949-2900
Sechelt: (604) 740-8220
Squamish: (604) 892-2500
Terrace: (250) 635-0635
Ucluelet: (250) 726-7748

HELIFOR INDUSTRIES LIMITED

828- 1200 West 73rd Avenue
Vancouver, BC V6P 6G5
(604) 269-2000

SAWMILLS

Acorn Forest Products
(604) 581-0494
9355 Alaska Way, Delta, BC V4C 4R7

Adams Lake Lumber
(250) 679-3234
9200 Holding Road, R.R. 2, Chase, BC V0E 1M0

Field Sawmills
(250)338-5414
1901 Comox Rd, Courtenay, BC V9N 3P7

Hammond Cedar
(604) 465-5401
20580 Maple Crescent, Maple Ridge, BC V2X 1B1

MacKenzie Seizai
(604) 580-4500
11732- 130th Street, Surrey, BC V3R 2Y3

Squamish Lumber
(604) 892-2500
P.O. Box 280, 1500 Hwy 99, Squamish, BC V0N 3G0

Western Whitewood
(604) 525-9411
501 Boyd Street, New Westminster, BC V3M 5H6

REMAN OPERATIONS

Albion Process Centre
(604) 463-4234
CEDARPRIME Inc.
(360) 988-2120
Fraser Reman
(604) 520-8400
Saltair Timber Products Ltd.
(250) 416-0590

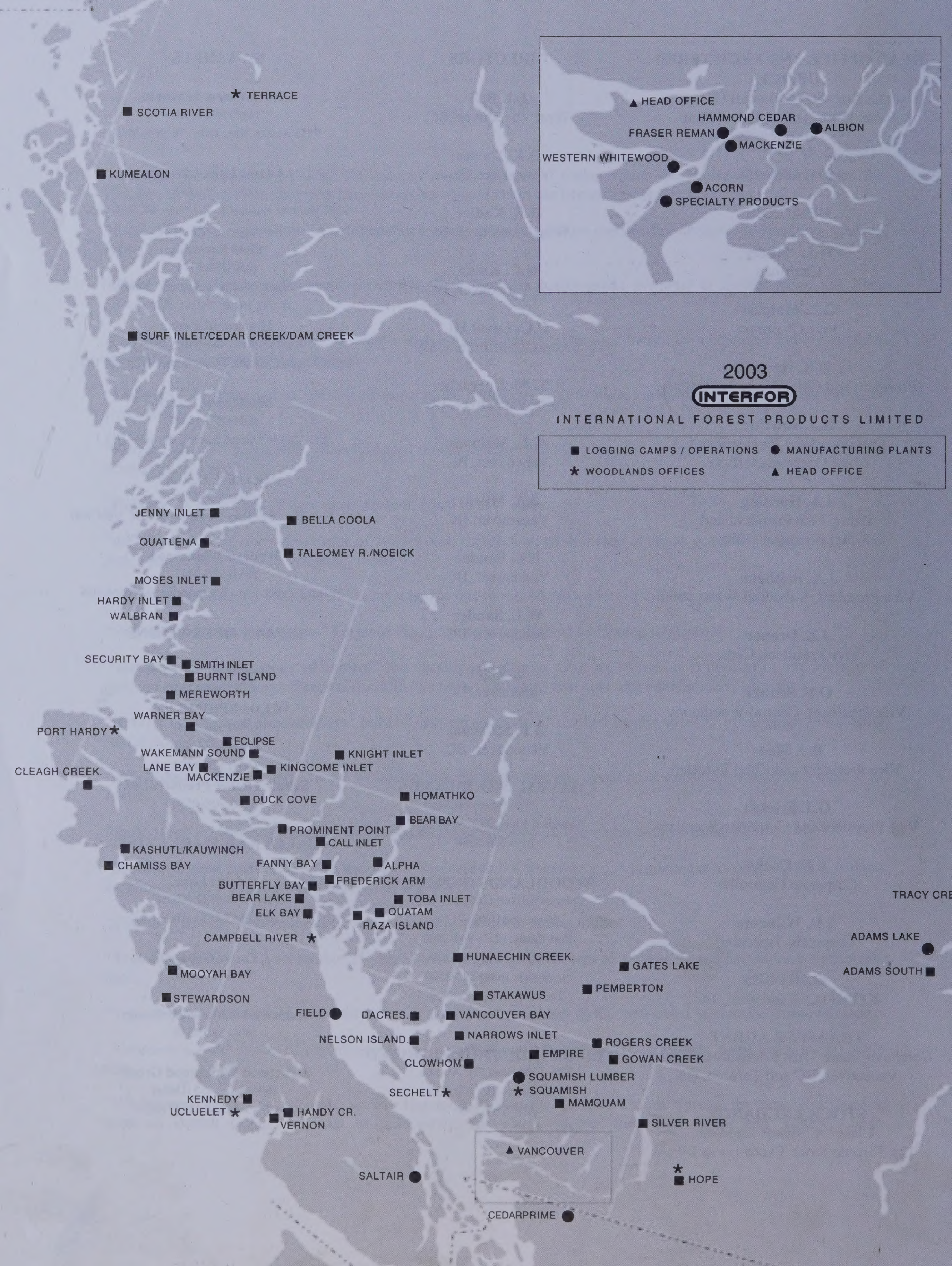
SALES AND MARKETING

Adams Lake
(250) 679-6822 (Chase)
(604) 587-4555 (Delta)

Cedar Group
(604) 465-2231

Industrial Whitewood Group
(604) 580-4550

Structural Whitewood Group
(604) 587-4555 (Delta)
011-81-3-3215-2421 (Tokyo)


HEAD OFFICE
HAMMOND CEDAR
FRASER REMAN
ALBION
MACKENZIE
WESTERN WHITEWOOD
ACORN
SPECIALTY PRODUCTS
2003
INTERFOR
INTERNATIONAL FOREST PRODUCTS LIMITED
LOGGING CAMPS / OPERATIONS
MANUFACTURING PLANTS
WOODLANDS OFFICES
HEAD OFFICE
TERRACE
SCOTIA RIVER
KUMEALON
SURF INLET/CEDAR CREEK/DAM CREEK
JENNY INLET
BELLA COOLA
QUATLENA
TALEOMEY R./NOEICK
MOSES INLET
HARDY INLET
WALBRAN
SECURITY BAY
SMITH INLET
BURNT ISLAND
MEREWORTH
WARNER BAY
PORT HARDY
ECLIPSE
WAKEMANN SOUND
KNIGHT INLET
LANE BAY
KINGCOME INLET
CLEAGH CREEK.
MACKENZIE
DUCK COVE
HOMATHKO
BEAR BAY
PROMINENT POINT
CALL INLET
KASHUTL/KAUWINCH
CHAMISS BAY
FANNY BAY
ALPHA
BUTTERFLY BAY
FREDERICK ARM
BEAR LAKE
TOBA INLET
ELK BAY
QUATAM
RAZA ISLAND
CAMPBELL RIVER
TRACY CRE
ADAMS LAKE
ADAMS SOUTH
HUNAECHIN CREEK.
GATES LAKE
MOOYAH BAY
PEMBERTON
STAKAWUS
STEWARDSON
FIELD
DACRES.
VANCOUVER BAY
NELSON ISLAND.
NARROWS INLET
ROGERS CREEK
EMPIRE
GOWAN CREEK
CLOWHOM
SQUAMISH LUMBER
SQUAMISH
SECHELT
KENNEDY
MAMQUAM
UCLUELET
HANDY CR.
VERNON
SILVER RIVER
VANCOUVER
SALTAIR
HOPE
CEDARPRIME